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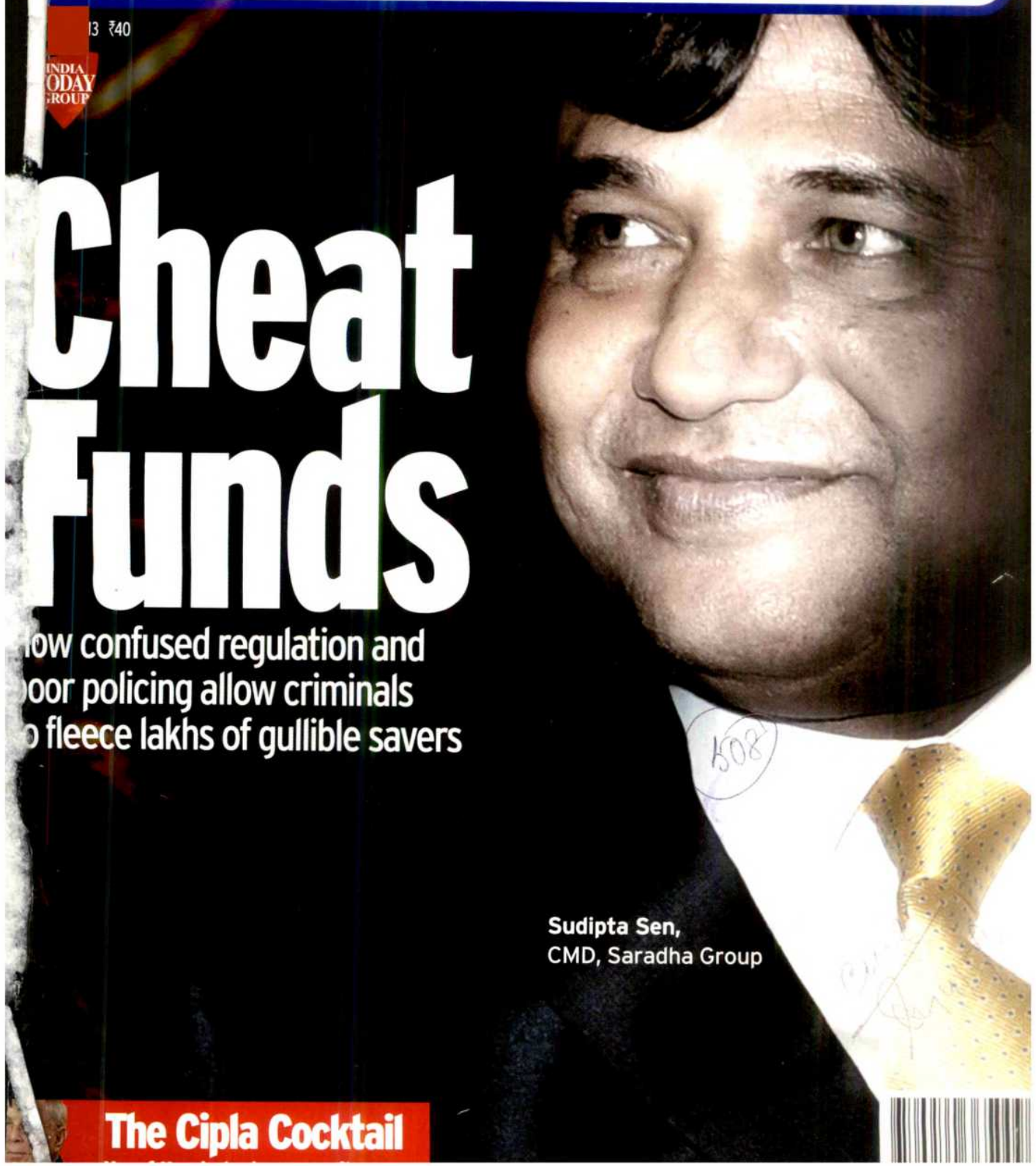

Sudipta Sen,
CMD, Saradha Group

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From the Editor

Sometimes India's economy resembles a rambunctious teenager brought up short by a finger-wagging headmaster. Our finance minister can now recite with his eyes closed a string of figures that seek to prove that India has not done badly at all in comparison with the rest of the developing – and indeed the developed – world. P. Chidambaram is as agile as a matador, blaming a "strong contractionary monetary response" and not the government's devil-may-care spending for the slowdown. He told the Asian Development Bank's annual meeting in Greater Noida the day we went to press that India "remained, even in 2012/13, one of the fastest growing large economies in the world". Hark, the herald angels cringe. The reality is the IMF's warning that India is headed towards a "middle-income trap" if it does not reduce government involvement in the economy and take an axe to its ever denser thickets of regulation. But with a lock-jawed government frozen in the headlights of shame and scandal, significant financial reforms seem like a pipe dream. Shortly before Chidambaram spoke, RBI Governor Duvvuri Subbarao, after cutting the key repo rate for the third time in 2013, warned that "the Reserve Bank's assessment of the growth-inflation dynamic yields little space for further monetary easing".

Financial reforms mean bridging the chasm for India's great unbanked masses. But as our cover story by M.G. Arun underlines (page 50) the inexorable urge to save, to invest, perchance to multiply one's money pushes many of our countrymen and women to subscribe to questionable schemes. Last month Sudipta Sen's Saradha Group imploded in spectacular fashion, turning money deposited by hundreds of thousands of credulous people into vapour – not to speak of the sudden unemployment of hundreds of print and television journalists who had flocked to his newspapers and television channels. It turns out that India is crawling with thousands of chit funds and other dubious deposit-taking rackets, and cheat shops emerge from the shadows in examples like the 130 Kerala chit funds that set up office in one building in the industrial town of Faridabad in Haryana, as Special Correspondent Sarika Malhotra discovered (page 56). As always, Indian authorities are expert at wringing their hands in helplessness. State governments are supposed to regulate chit funds, while the Securities and Exchange Board of India has jurisdiction over variants like "collective investment schemes". Little wonder that physical gold – coins, "biscuits" and even ingots – is increasingly popular. People obviously do not trust any institution or instrument with their money.

This issue we also profile Cipla, one of India's largest pharmaceutical companies. The Supreme Court's recent ruling denying a patent extension to a multinational drug company on the grounds of "evergreening" – tweaking a product's composition in order to extend the life of a patent – will now benefit many generic companies in India, including Cipla. Twelve years ago, Cipla shook up the global market for anti-AIDS drugs by offering to sell a powerful cocktail of three generic drugs for just $300 a year. Cipla's enigmatic Chairman Yusuf Hamied has just relinquished his executive role of managing director and recruited Subhanu Saxena as CEO. Associate Editor E. Kumar Sharma met Hamied and several analysts to put together a compelling tale about management change at the 78-year-old company (page 42).

Change is good, but continuity is also precious. Senior Editor Anand Adhikari co-wrote and also shepherded this fortnight's special package on the oldest multinationals in India (page 59). These companies have been dependable brands in our lives – Glaxo, Standard Chartered, Castrol, Siemens, General Electric, Hindustan Lever, SKF and Philips. How and why they pitched their tents in India, and how and why they have endured, makes for a collection of great stories by the *Business Today* team. Sometimes it is worth remembering that you have to learn from the past "for managing tomorrow" – our magazine's sub-title.

Chaitanya Kalbag

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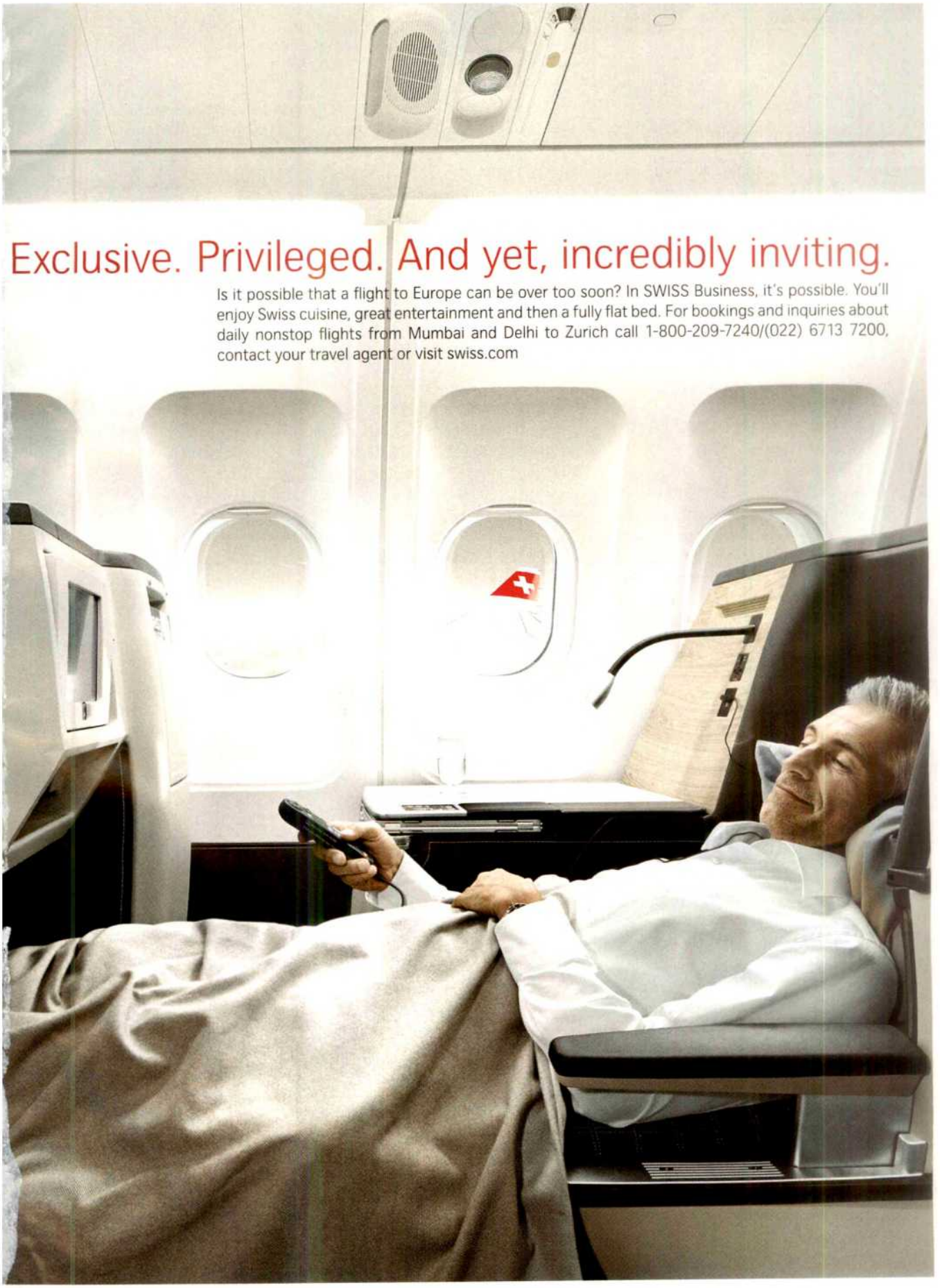

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Blame Ministry for IIT Mess

Your cover story *Is Brand IIT Broken?* (May 12), highlighting the deplorable condition of the IITs, should be appreciated. As an IITian myself – my son, too, passed out of IIT-B – I believe the human resource development ministry and its present head Kapil Sibal are squarely responsible. Part of the blame also goes to the directors of the IITs who, unlike their counterparts in the IIMs, have not protested. However, your report should also have brought to light the cramped and unhygienic condition of the IIT hostels. Today you will find at least 10 students in the campus hospitals at any time during a semester.

S.P. Damle, *Gunavardhan Training Institute*

Karnataka's Woes

Your feature *Frittered Away* (May 12) has thoroughly analysed how intra-party and inter-party power struggles have hampered Karnataka's development. Political parties must recast their agenda taking into account the growth engine of the state. Perhaps the assembly election holds the master key to stepping up the pace of development in the state.

B. Rajasekaran, *Bangalore*

Bright Future for Diesel Cars

Your cover story on the automobile industry (*Ain't No Time to Disco*, April 28) has noted the bright future for diesel cars as the consumers in India have switched very quickly from petrol to diesel in the last two years. With car manufacturers now trying desperately to lure customers with unprecedented discounts, those who can afford it should realise this is the best time to buy a new car.

Deepak Shukla, *Pune*

Aspiring SMEs

The article *Big Small Players* (April 28) gives inspiration and strength to small and medium enterprises (SMEs) in today's testing times. It brings to light the undying spirit of Indian entrepreneurs who excel despite the complexities and uncertainties involved in doing business in India. Kudos to *Business Today* and YES Bank for recognising such a diversified pool of talent.

Rohit Arora, *on the email*

Correction

The cover story *Is Brand IIT Broken?* (May 12) quotes B. Ramamurthi, Director, IIT Madras, as saying that a change made in 2000 in the IIT joint entrance exam format tilted the test in favour of students who learnt to crack multiple choice questions in a limited amount of time. The change was made in 2006.
The error is regretted.

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Parle diversifies beyond ubiquitous Parle-G biscuit.
This was expected considering the cut-throat competition in the market as a whole...
All India TRP's Discussion Forum

What prompted KFC to go native in India?
Now that McDonald's is the market leader in the fast food industry, all are gunning for its strategies, and no player is using novel ideas these days...
All India TRP's Discussion Forum

ISB students now opt to lead small companies.
No offence for the genuine soul out there... I know quite a few people, obviously from the IIM and ISB, who landed in small companies not by choice but by chance (2012 placement)...
Faisal Ahmad

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Limited Impact

Sanjiv Shankaran analyses how the RBI's May 3 rate cut will impact consumers and industry.
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Iranian Connection

Anilesh Mahajan considers the significance of External Affairs Minister Salman Khurshid's visit to Iran.
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Anand Adhikari discusses Tata Group chief Cyrus Mistry's new A team.
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Aakash Delivery

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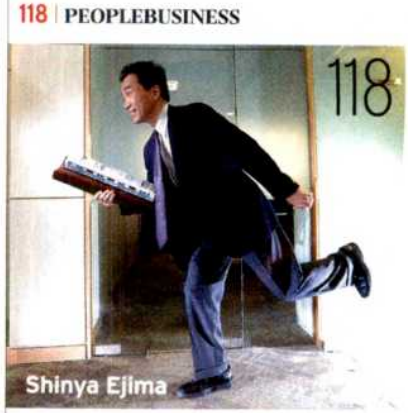

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MD & CEO, Metropolis Healthcare

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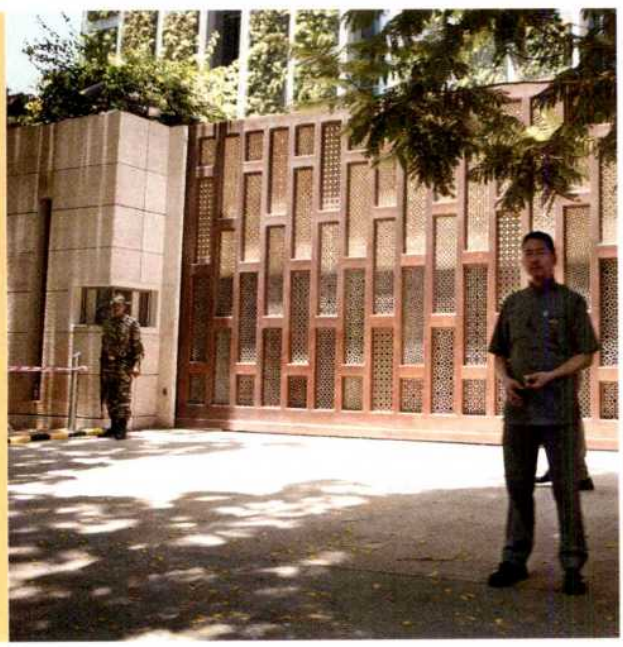
Insecure Times: The Supreme Court has questioned the Z-category security given to Reliance Industries Chairman Mukesh Ambani. His Mumbai residence Antilla (in pic) will be guarded by a swarm of Central Reserve Police Force personnel armed with AK-47 rifles. The monthly cost: ₹15 lakh. Unlike others with similar security, Ambani himself will foot the bill.



NISHIKANT GAMRE

Corporate

Tata Sons Chairman Cyrus Mistry has a new 'A' team. The new group executive council (GEC) replaces both the existing group corporate centre and the group executive office. **N.S. Rajan** from Ernst & Young is the new group chief human resources officer. The other members of the council are **Mukund Govind Rajan**, who will oversee the Tata brand, communication, ethics and CSR, and ex-Bombay Stock Exchange chief **Madhu Kannan**, who will head business development and public affairs.

It is deal time for Bharti Airtel, the world's fourth-biggest mobile phone company by customers. Qatar has bought a five per cent stake in the telecom major for $1.26 billion. Bharti's profit has been falling three years in a row. India's inbound M&A now totals $9.83 billion so far this year, compared with China's $7.7 billion and Australia's $6.9 billion.

Infosys, under pressure to improve its performance, has tied up with New York-based IPsoft. The deal will give the software giant a headstart over rivals in the infrastructure management market, which is expected to be worth $140 billion by 2015.

Confirming the resurgent mood of the FMCG sector, **Hindustan Unilever**, led by **CEO Nitin Paranjpe**, has recorded double digit growth in the home and personal care business, and the foods business. The FMCG giant has reported **12.5 per cent increase in net sales** and **17.7 per cent growth in net profit** in Q4 of 2012/13 compared to the corresponding quarter of 2011/12. The outstanding performance has prompted parent Unilever to offer to pay $5.4 billion to increase its stake in the Indian arm to 75 per cent. **It is the largest such deal in India's consumer goods sector.**

Apple Inc wowed the debt markets with the largest non-bank bond deal in history, pricing a whopping $17 billion as it switches strategy. Just a week after announcing its first drop in quarterly earnings in a decade, Apple came to market with the deal to raise funds for a programme that will return $100 billion in cash to holders of Apple shares.

A group of telecommunications' carriers, including Vodafone Group Plc and Reliance Industries, will build an undersea cable system across the Indian Ocean to connect Southeast Asia with West Asia. The 8,000-km Bay of Bengal Gateway cable will link Malaysia and Singapore to the West Asia. It will also connect with India and Sri Lanka.

Economy

Middle-income Asian economies enjoy better growth prospects than those in other parts of the world but they must **improve government institutions** and **liberalise rigid labour and product markets** if they wish to reach the level of developed countries, the International Monetary Fund (IMF) has said. India, the Philippines, China and Indonesia need to tone up their economic institutions while India, the Philippines and Thailand are also exposed to a larger risk of growth slowdown stemming from sub-par infrastructure.

The government has formally allowed **Swedish furniture major IKEA to invest ₹10,500 crore to set up single brand retail stores** selling mostly home furnishing items. The global furniture major has also been allowed to run cafes and restaurants within its premises in India, but it cannot sell packed food items.

The civil aviation ministry has allowed Indian airlines to charge for services above the base fare. This will result in **Indian fliers paying extra fees for carrying check in baggage**, for one, in addition to paying for meals even in full service carriers such as Jet Airways. Passengers will also have to pay for preferential seating, carrying sports equipment and musical instruments, or even baggage they deem 'valuable', or using airline lounges.

$150 bn

The value of digitally influenced purchases by 2016, a five-fold jump from $30 billion today, according to a study by Boston Consulting Group. The surge in internet users from 125 million at present to 330 million in 2016 will ensure this spike in value.

$518 bn

Global advertising market by the end of this year. World advertising expenditure will grow by 3.9 per cent in 2013 and by five per cent in 2014, driven by internet advertising, according to ZenithOptimedia. Online advertising spending will overtake print in 2015. Online video and social media advertising are growing at about 30 per cent every year.

Markets

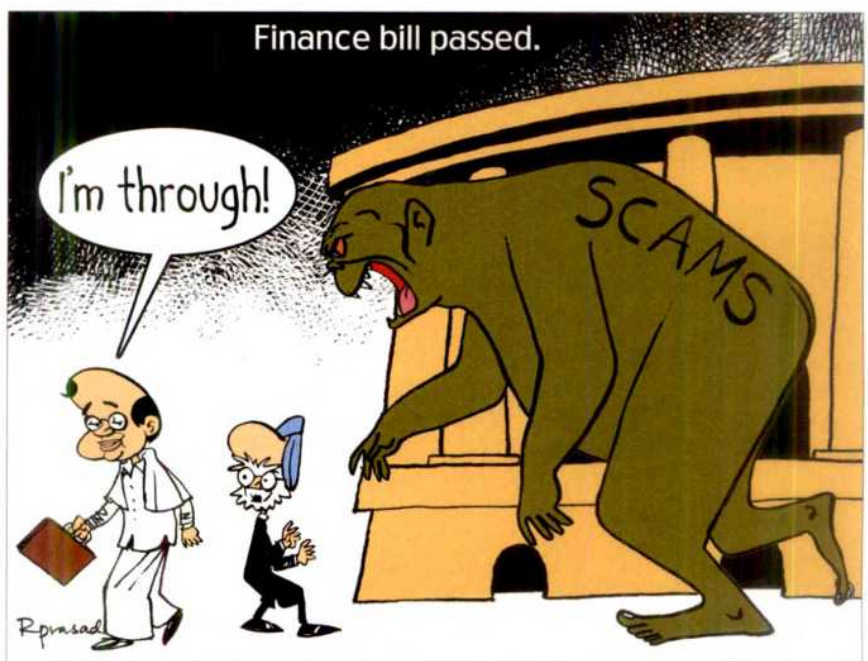
The Bombay Stock Exchange (BSE) has launched an Islamic equity index based on the S&P BSE 500 index, providing a new benchmark for Islamic investors in one of the world's largest stock exchanges. The new index comprises the largest 500 companies in the BSE, out of more than 5,000 listed, which fit Islamic finance principles which ban investing in gambling-related businesses.

Indian consumer confidence dropped in the first quarter of 2013 becoming lower than that of Indonesia due to the 'environment around them', according to a survey by market insights and information provider Nielsen India. The index topped the global list at 121 in fourth quarter of 2012.

Coming Up

- The government plans to provide subsidy to 14-crore LPG subscribers directly into their bank accounts from October 1, using the Aadhar payment platform. Under a pilot project for LPG subsidy transfer, 20 districts in the country will be covered by May 15.

- Finanace Minister P. Chidambaram, who has courted investors on visits to North America and Europe, is planning to take his roadshows to Australia and Qatar next, during May. He may not have an easy time explaining the scandal-rocked UPA regime's path to reforms.



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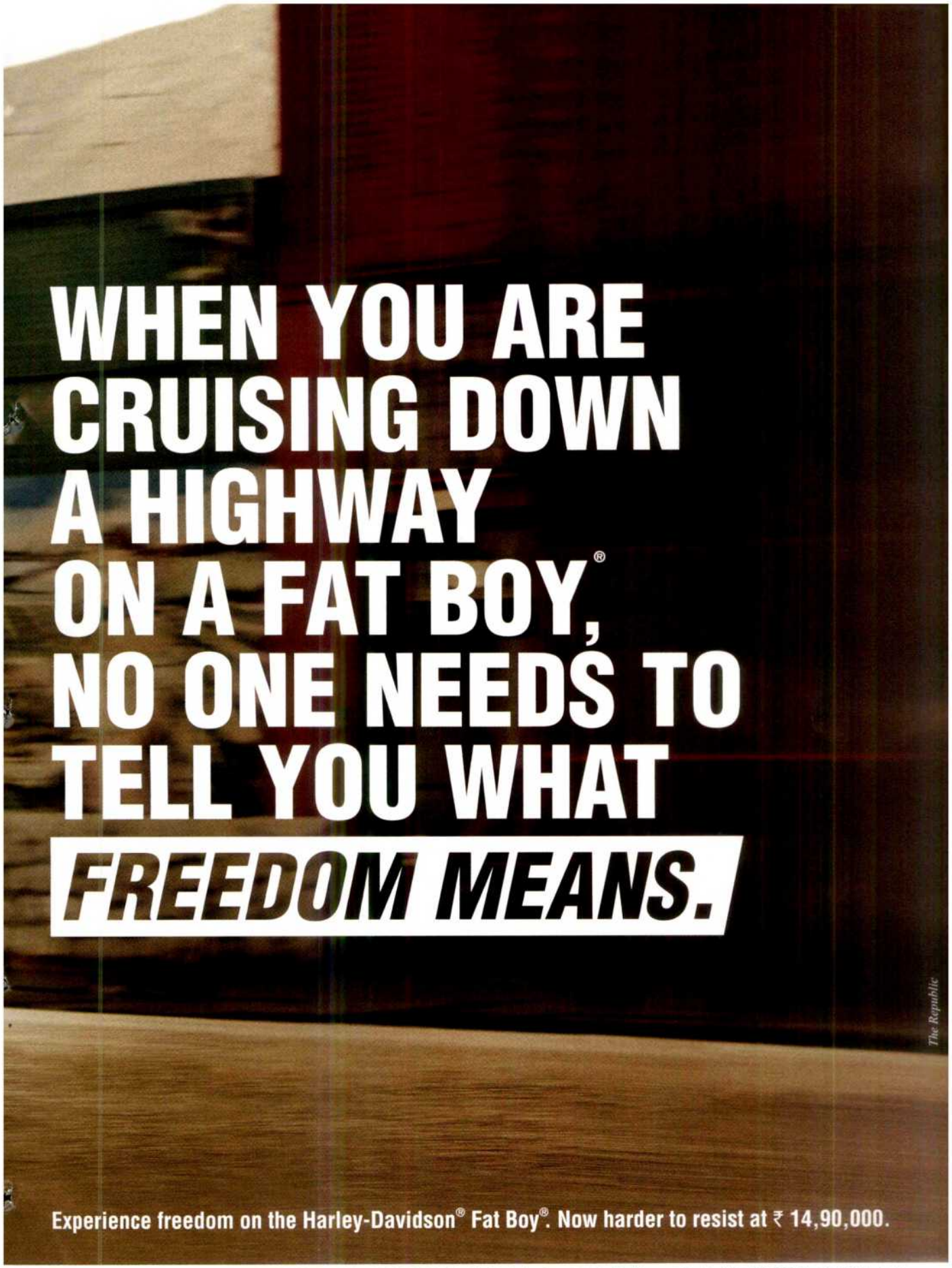

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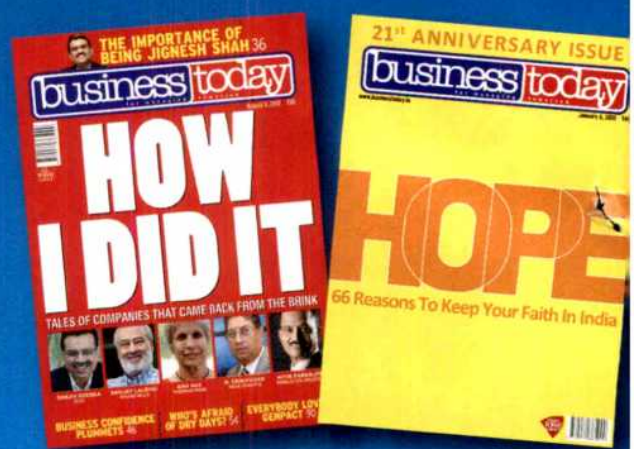

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FOCUS

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A problem of plenty: The government has abundant cereal stocks

SHEKHAR GHOSH/WWW.INDIATODAYIMAGES.COM

Hoarder Number 1

Cereal prices soar as the government stockpiles grain without distributing it. By SANJIV SHANKARAN

60%
of a poor household's expenditure in India is on food

On a recent Friday afternoon, the conference room in the New Delhi office of the Earth Sciences Ministry was bursting at the seams with journalists. Struggling to make his way into the room, S. Jaipal Reddy, Earth Sciences Minister, joked that one would think a sensational political development had led to the congregation. It was actually the season's first official forecast of the south-west monsoon.

The monsoon is expected to be normal. "In terms of forecasts, we are more confident than the previous year," said

FOOD FOR THOUGHT

The government hoards cereals...

(Figures in million tonnes)

... putting pressure on prices

Source: Ministry of Statistics; Ministry of Food

SRISTI

Laxman Singh Rathore, Director General of Meteorology, India Meteorological Department. The south-west monsoon accounts for about 70 per cent of India's annual rainfall and has a big impact on the production of rice and maize.

Even as Rathore was taking journalists through the mechanics of his forecast, another meeting was underway in Delhi to deal with a crisis. A crisis of plenty. Executives of state-owned Food Corporation of India were meeting agriculture ministry officials as their granaries were overflowing even as last winter's wheat harvest was still flowing in. FCI largely buys rice and wheat from farmers at government-set prices and stores it for subsequent distribution.

Indeed, south-west monsoons have been normal since 2010, the reason why granaries are brimming over. But ironically prices of cereals such as rice and wheat are escalating, defying the general trend of softening inflation.

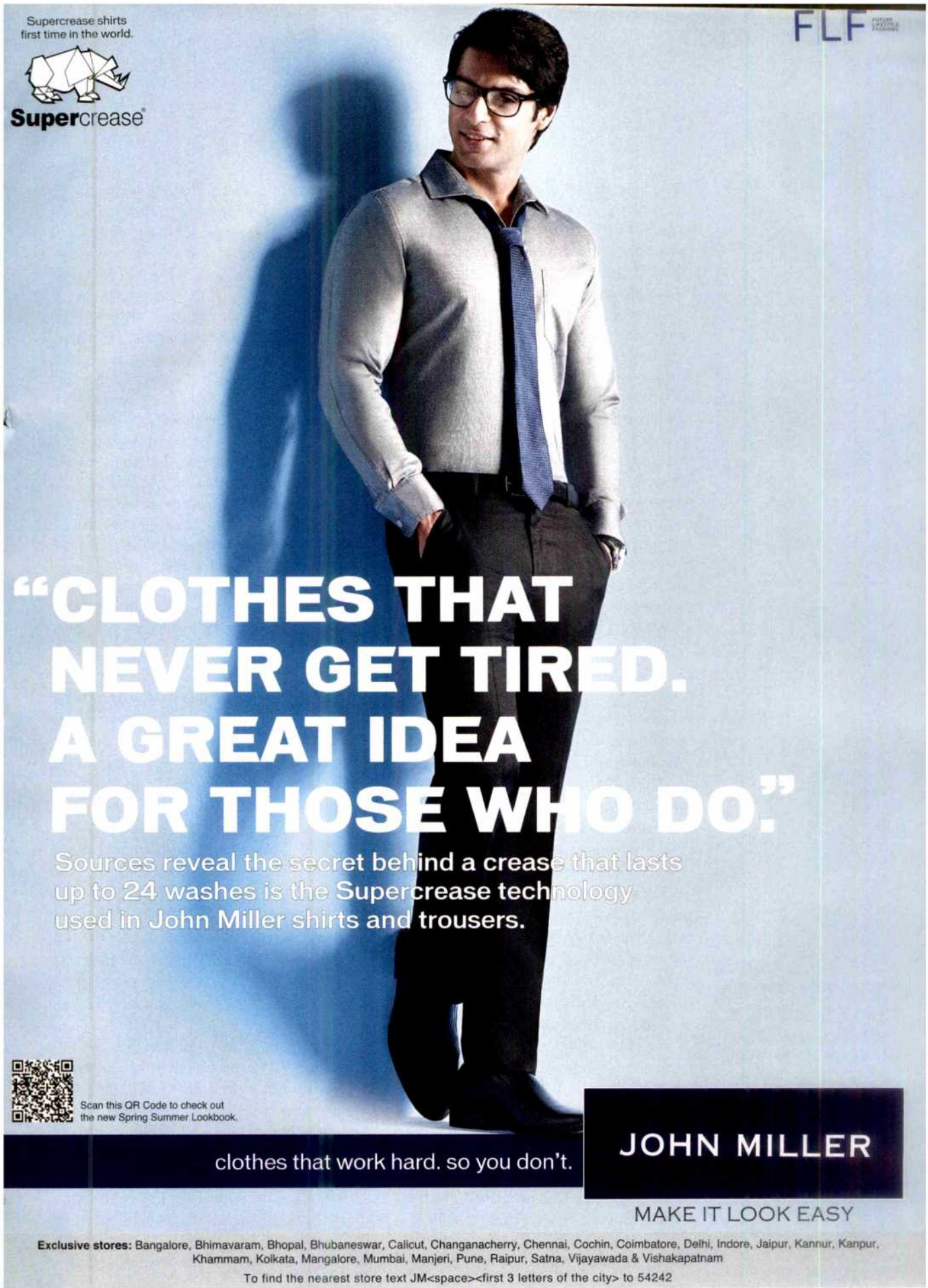
Cereal inflation was 4.64 per cent in March 2012. In its latest reading, March 2013, inflation was 18.36 per cent (see *Food for Thought*). In April, government's granaries had a stock of 59.6 million tonnes of foodgrain, mainly wheat and rice, which was almost three times the stipulated buffer needed to meet shortages.

"Excess procurement is leading to an artificial scarcity," says Madan Sabnavis, Chief Economist at credit rating agency Credit Analysis & Research Ltd, explaining that the scarcity is driving cereal inflation. Elevated food prices have a spillover effect on the rest of the economy, making monetary easing difficult for the Reserve Bank of India.

A few years of high minimum support price (MSP) – floor price at which government buys all the wheat and rice offered by farmers – has led to the massive procurements. This, however, has not been followed through with regular releases into the market.

"Markets are totally distorted," says Ashok Gulati, Chairman of the Commission of Agricultural Costs and Prices, the government body which recommends MSP.

Indeed, the MSP for farmers has been steadily rising. For paddy, the MSP increased from a level of ₹1,000 for 100 kilogrammes in 2009/10, to ₹1,250 in the last season. For wheat, it increased from ₹1,080 for 100 kg to ₹1,350 in the ongoing procurement.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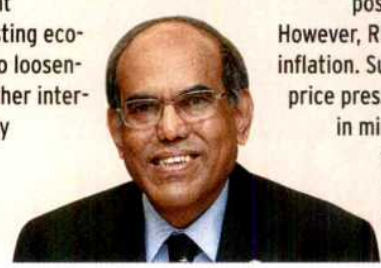
Helpless?

The Reserve Bank of India has made three monetary policy announcements in 2013 and it has cut interest rates by 25 basis points (one basis point is one-hundredth of a percentage point) in each one of them. Governor D. Subbarao's policy speech on May 3, however, conveyed a sense of futility about the central bank's ability to spur economic growth. "Recent monetary policy action, by itself, cannot revive growth," he said. Evidence increasingly points to the need for the Union and state governments to pull their weight in reviving sentiments and boosting economic growth. RBI's approach to loosening monetary policy through either interest rate cuts or infusing liquidity started in January 2012. However, the impact on the economy has been muted.

"RECENT MONETARY POLICY ACTION, BY ITSELF, CANNOT REVIVE GROWTH"
D.Subbarao, Governor, Reserve Bank of India



The economy is expected to grow by five per cent in 2012/13, according to statistics ministry's estimates. The RBI expects it to expand 5.7 per cent in the current financial year, lower than the finance ministry's projection of 6.1-6.7 per cent.

"It (monetary policy) needs to be supplemented by efforts towards easing the supply bottlenecks, improving governance and stepping up public investment," said Subbarao.

The slowdown in growth and softening oil prices have reduced the threat inflation posed to the economy. However, RBI remains wary of food inflation. Subbarao identified food price pressures and upward revisions in minimum support price to farmers as factors that could undermine the efficacy of monetary policy.

ELEVATED FOOD PRICES HAVE A SPILLOVER EFFECT ON THE REST OF THE ECONOMY, MAKING MONETARY EASING DIFFICULT FOR THE RESERVE BANK OF INDIA

"Foodgrains sector is bound by MSP," says P.K Jha, Additional Secretary in the consumer ministry's Department of Food and Public Distribution.

Typically, the central and state governments between them buy around half the rice and wheat stock sold by farmers. Procurement of foodgrains, which was 56.7 million tonnes in 2010/11, increased to 63.3 million tonnes the next season. "Stock in the market is important, not the total stock," says V.S. Vyas, an economist with the Prime Minister's Economic Advisory Council. The council has been urging the government to increase market supply.

The procurement is largely carried out in a few states, while rice and wheat are sold across the country. There is then a case for procurement to meet the cereal demand across the country, but stockpiling is the real problem, say experts. "If you don't have a roadmap of distribution, you are stuck," says Himanshu (uses only one name), an economist who teaches in New Delhi's Jawaharlal Nehru University.

There are no clear reasons for the stockpiling. The main conduit for distributing the grain is ration shops that make up the Public Distribution System (PDS). The finance ministry has been wary of adding to the food subsidy bill by pushing more grain through PDS as it has proved politically impossible to increase the issue price of grain over the last 11 years. While the grain has been sold at the same issue price, the cost of procurement has increased on account of escalating MSP and storage cost.

The problem does not look like it will end soon. In the last year of the United Progressive Alliance (UPA), few expect a change in the MSP policy. "We are not going to see the situation changing till 2014," says Himanshu.

However, Himanshu and officials are hopeful that the passage of the Food Security Bill in Parliament will force the government to offload its stockpiles through the PDS. Once grain begins to flow into the market, cereal inflation may begin to taper in the short to medium term. In a strange twist, the Food Security Bill is beginning to look like this year's food inflation buster. ◆

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GOPAL SUBRAMANIUM

A Lokpal Must Monitor CBI

A completely independent body, directly answerable to Parliament, must oversee the working of the CBI

I think the effort by the judiciary to insulate the Central Bureau of Investigation (CBI) is unequivocal. The judgment in the Vineet Narain case (in 1993, when the Supreme Court gave guidelines to insulate the office of the CBI director) was founded on the principle that the CBI must function without any kind of extraneous pressure or any kind of political interference. The selection of the CBI director takes place only nominally in compliance with the process described by the Supreme Court. In reality, as we have seen in the last few years, there does seem to be a kind of disconnect between the true intention of the Supreme Court judgment and the ground reality.

Now, there are two aspects which we must understand. Members of the political class, across the political spectrum, have a great deal in common. Members may take differing sparring positions with one another at different points in time, but deep down in their hearts they all know an independent CBI would be really troublesome. That is why there is a huge gap. The police officer who is selected to head the CBI understands this very well. He understands the political reality. The director has become an ace politician by the time he is appointed. He understands when, for the political continuity of the government or the system, he should move fast, or move slow or dilute his efforts.

DEEP DOWN IN THEIR HEARTS THE POLITICAL CLASS KNOWS AN INDEPENDENT CBI WOULD BE REALLY QUITE TROUBLESOME

The time has come when the entire process of recruitment to the CBI, even by deputation, must be overseen by an expert independent committee. Integrity must be the first quality to be assessed during the selection. What we mean by integrity is intellectual integrity, as much as integrity in matters relating to money.

The ability to say honestly, on each matter taken up, whether there is a case or there isn't. That is where CBI, in my view, falters. They don't have the confidence in themselves to thump their fists and say we are professionals and we know there is no case in this particular matter. They err on the side of caution. Second, the director has to be an inspiring person. Before choosing one, it should be ascertained whether the man is capable of inspiring people.

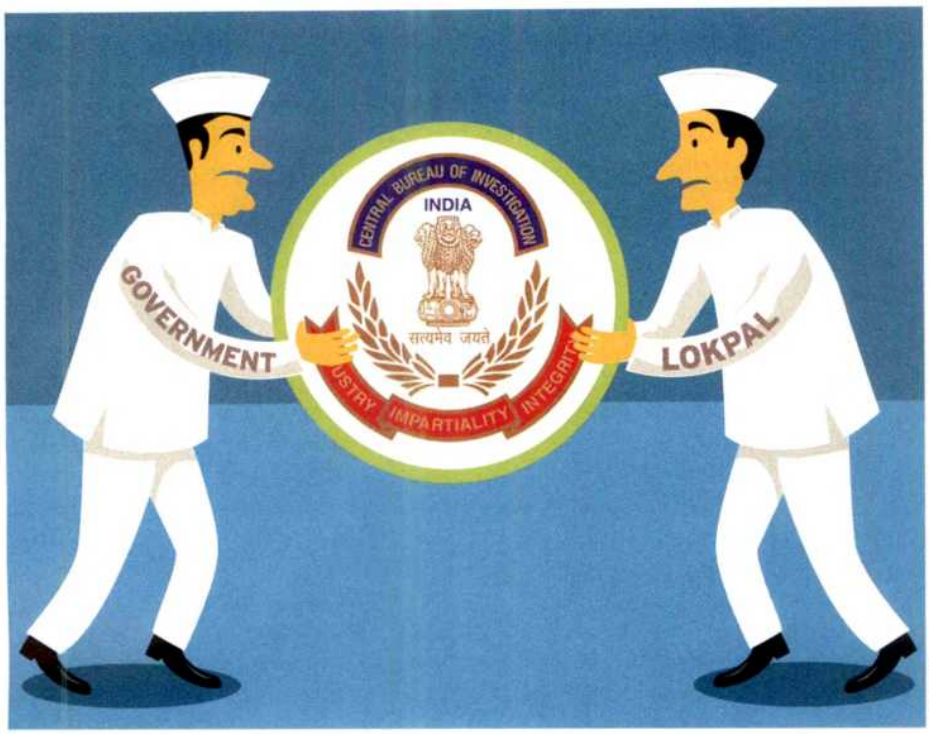
The Decline

I feel that the degree of protection and insulation officers in the CBI enjoyed under directors like Vijaya Rama Rao are not seen now. Rao acted on the basis of good faith and conscience. He thought there was not enough material in the Jain hawala case (in the 1990s) and I know that for a fact. He acted purely in a professional manner. He was an iconic figure in the CBI.

My fundamental grievance is that legal ideology has not been properly formulated by this government. It has no legal ideology. Legal ideology means ideology of the law and the constitution. If you don't know how to put it into action in your political behaviour, you are not following the constitution any more.

The CBI is not part of the government. It was never meant to be part of the government. It is a statutory authority. It is a special police establishment. Having acquired the character of a statutory body, it is meant to act in accordance with certain standards. I also feel that the CBI has not been transparent in its approach to crime. It is important for citizens to know that the CBI will deal with them fairly. If the CBI is

For the full column, go to
www.businesstoday.in/subramanium-cbi



SANTOSH

powerful because it can be used for political purposes, then remember it can also be used for collateral purposes and the danger to people is that much more. You are, therefore, bringing into existence a sort of gargantuan machinery whose ability to control itself may become difficult.

Lokpal and the CBI

What happens if the CBI becomes a rogue elephant? I think that's an important question. Let us look at that position. Can it be left completely alone?

The idea of the Lokpal was an idea in the right direction. A completely independent body must oversee the working of the CBI. And this body must be directly answerable to Parliament. Alternatively, CBI can be freed completely, but it must be made answerable directly to Parliament. The danger of being directly answerable to Parliament is that the political class as a whole has not given sufficiently inspiring evidence that the CBI's functioning will never be interfered with, or that it will scrutinise the work of the CBI with complete dispassion. Therefore, we need to have an independent Lokpal, and its duty should be to just supervise the working of the CBI and see that there is no political interference. It will also ensure that the CBI has proper administrative support.

I think the prosecution wing must be completely at arm's length from the investigation department. The Lokpal will decide whether a prosecutor is getting compromised anywhere and it can take effective action.

CBI's current predicament shows a measure of helplessness, but I think more importantly, it shows that someone has already accepted a servile position. The man at the top makes all the difference in this organisation. A professional director, absolutely clean, who is not influenced by anybody, who does his job professionally is the safest guarantee for a citizen. He is also the safest guarantee for the government. So, you must look at the value which an independent director can bring. I make no comments about the present director, but I think we really need to revisit the issue of a Lokpal. ◆

The author is a former Solicitor General of India.
(As told to Sanjiv Shankaran)

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Braving the Downturn

Placements at top MBA institutes seem relatively unaffected, but second-rung ones have been hit. By E. Kumar Sharma

VIVAN MEHRA/www.indiatodayimages.com

All is well: ISB students at its Hyderabad campus

AT THE SECOND-RUNG INSTITUTES, INCLUDING THE NEW IIMS, CAMPUS PLACEMENTS HAVE BEEN IMPACTED BY THE SLOWDOWN

The placement season in most leading business schools is winding down and by all accounts it has been a relative success despite the economic slowdown. Most students have been recruited even though average salaries have remained at last year's levels.

The Indian School of Business (ISB) has placed a substantial majority of its 762 students across its Hyderabad and Mohali campuses – only five per cent are still to be recruited. In absolute terms, given its large batch this year, it has placed more students in 2013 compared with the previous year. The school's efforts to engage with recruiters in Mumbai, Delhi, Bangalore and Hyderabad seems to have paid off – 421 companies made 798 offers, while 348 companies had made 631 offers last year. The average salary so far is around ₹19 lakh – comparable to the levels in 2012, according to an ISB spokesperson.

Another trend visible at the ISB was the changing profile of recruiters. "Management, consulting, pharmaceuticals and health-care companies showed a significant rise in recruitments, whereas investment banking and private equity firms did limited hiring," says V.K. Menon, Head of Admissions and Placements, ISB.

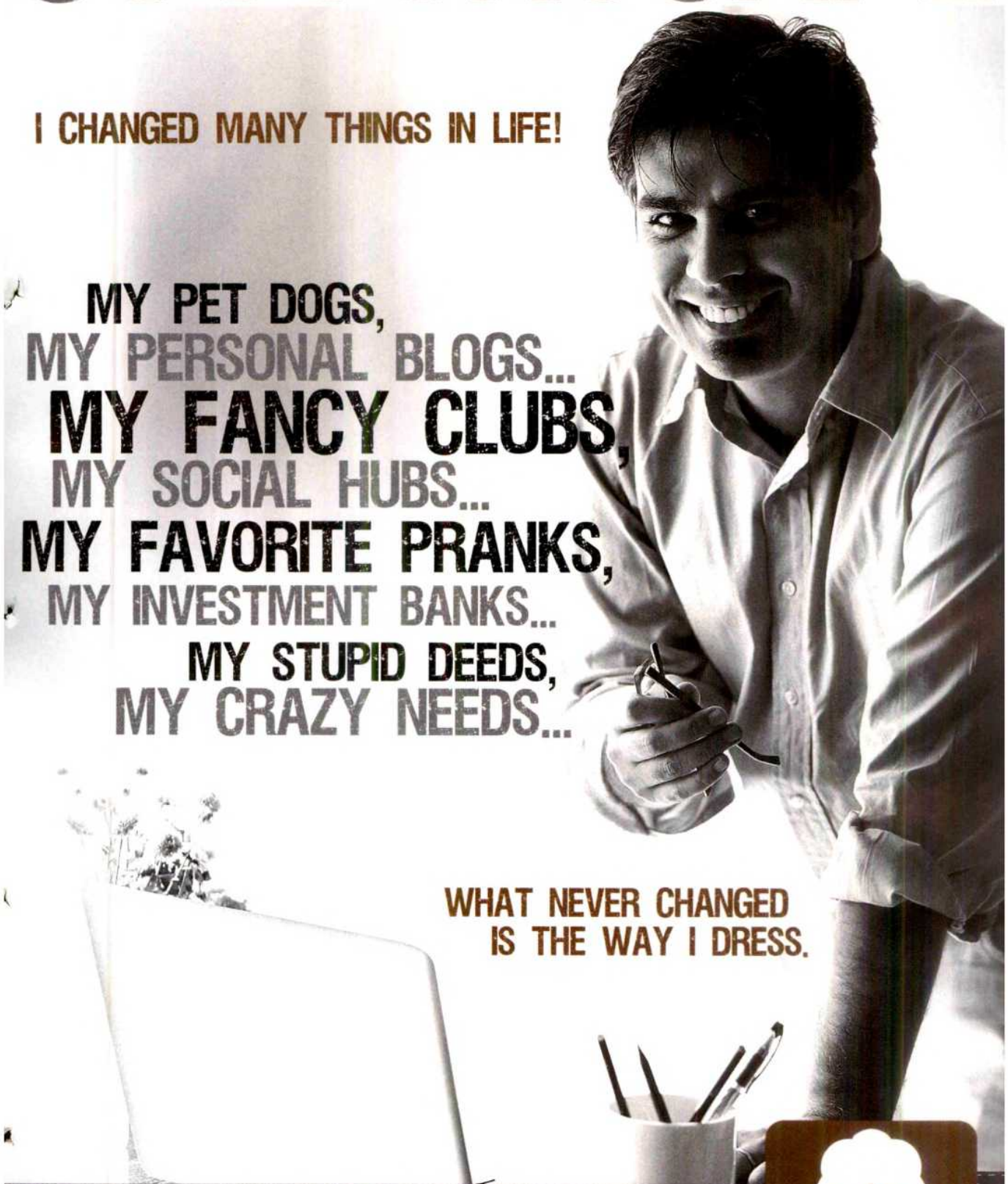
At the Indian Institute of Management (IIM) Ahmedabad, over 130 companies participated in the final placement process for its batch of 372 students, against some 120 last year. The school will not disclose compensation data until the placement report is audited. "Despite adverse market conditions, we saw a successful recruitment cycle this year," says Kirti Sharda, Chairperson, Placements.

IIM Bangalore's batch of 381 students saw some 150 companies making over 415 offers, compared with 363 students getting 423 offers from 129 companies in 2012. "While we do not comment on salaries, what we can say is that salaries offered on campus are in keeping with the market trends. Very rarely would salaries go lower than the previous year's offer," said an institute spokesperson.

At the second-rung institutes, including the new IIMs, however, campus placements appear to have been impacted by the slowdown. For instance, IIM Shillong succeeded in getting more companies to the campus this year, but saw a sharp drop in the number of offers. A total of 52 companies made 39 offers for a class of 104. The institute has still managed to place 99 students so far. In 2012, 44 companies had made 105 offers for a class of 93 students. The average salary this year has remained at around ₹12 lakh. "My hunch is that the quality (of placements) might have suffered a bit at the top level institutes, while at the second and third level (schools) both the quality and the numbers would have got affected," says Ajay Pandey, Director Incharge, IIM Ahmedabad.

Placements at the top flight institutes then seem relatively unaffected by the macroeconomic headwinds. ◆

COTTONSCAPE



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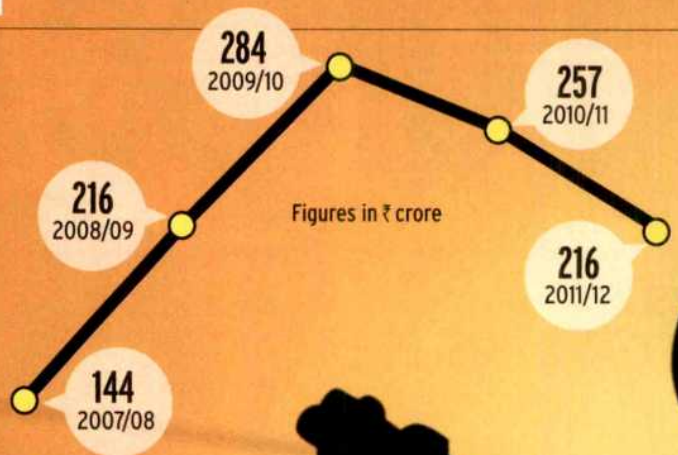


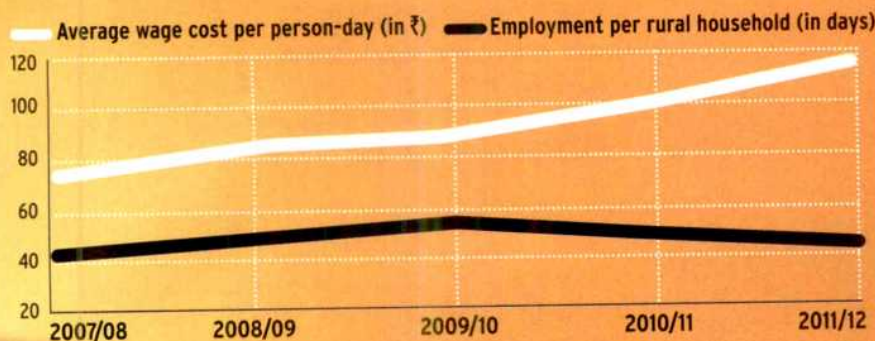
1 **Employment generation under the scheme has been declining since 2009/10**

LABOUR LOST

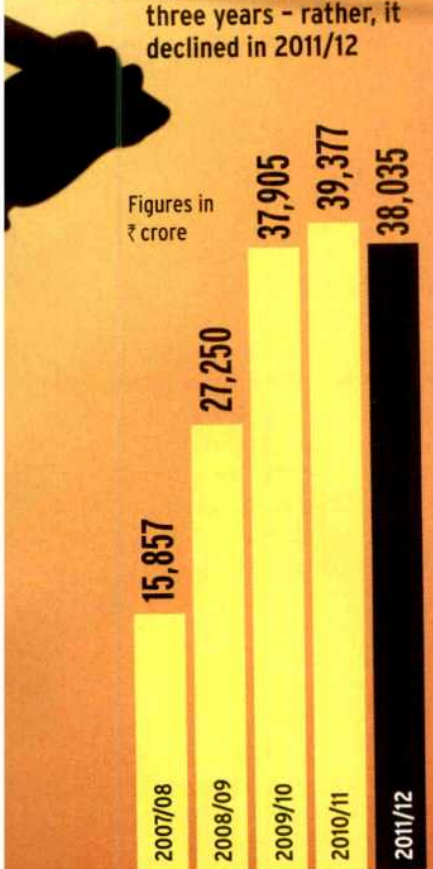
The government's flagship rural employment guarantee scheme has come under fire from the national auditor. Shoddy execution and poor utilisation of funds dog the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS), according to the Comptroller and Auditor General's report. The recent study found the MGNREGS struggling to meet its twin objectives – providing livelihood security and creating physical assets.

Graphic by **Santosh Kushwaha**

2 While the average wage paid is rising, the benefits to rural households are limited because of the decline in employment provided per household

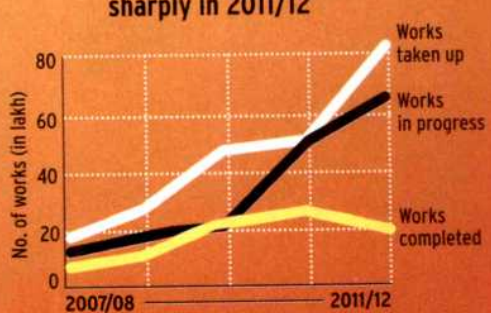


3 The expenditure on the scheme has not increased significantly in the past three years – rather, it declined in 2011/12



4 The share of the targeted groups – Scheduled Castes/ Scheduled Tribes – in the employment provided is falling

5 The number of projects launched under the scheme is rising. But the number of projects completed fell sharply in 2011/12



FOUR STATES (ANDHRA PRADESH, MADHYA PRADESH, RAJASTHAN AND UTTAR PRADESH) ACCOUNTED FOR

50

PER CENT OF THE TOTAL EXPENDITURE UNDER THE SCHEME

BIHAR, MAHARASHTRA AND UTTAR PRADESH ACCOUNT FOR

46

PER CENT OF THE RURAL POOR, BUT UTILISED ONLY

20

PER CENT OF THE MGNREGS FUNDS

Samsung Galaxy S4 **Price: ₹41,500**

Plain Jane with Brains

Samsung's latest much-hyped smartphone, the Samsung Galaxy S4, was indeed expected to be, from a design viewpoint, identical to its earlier Galaxy SIII. Even so, looks-wise, it is a disappointment. The plastic-textured back in particular is a put off, compared to the unibody design of the HTC One released earlier this year.

However, the five-inch Full HD screen with its crisp and vibrant homescreen redeems the product. The display – 441 pixels per inch – made video watching a delight. The S4 also packs two quad-core processors, clocked at 1.6 GHz and 1.2 GHz, and is paired with a 2GB RAM to offer snappy performance. It runs on the latest version of Android operating system, v4.2. Overlaying the stock Android interface is the latest version of the Samsung TouchWiz user interface.

Then there are features such as Smart Scroll which lets you scroll the page up and down while browsing the web or reading email. The phone is intelligent enough to note your eye position – if you tilt your head slightly, the page goes up or down. Another interesting feature is Smart Pause that pauses a running video if you look away. You turn to the screen again and the video starts playing again. There is also Air Gesture, which enables you to jump to the next image in a gallery of pictures by simply waving above the phone, without touching the display.

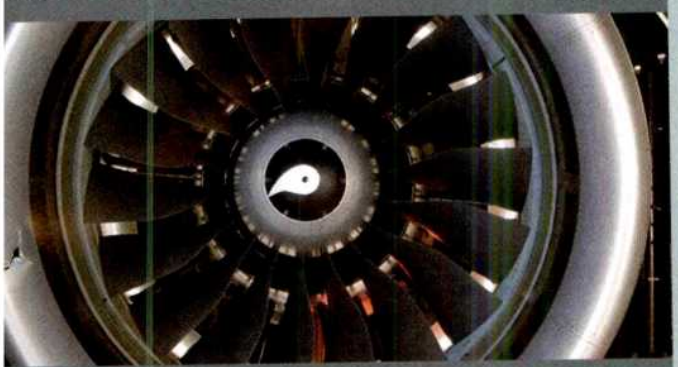
The 13 MP camera has a new user interface. The images are great, though they lack sharpness in low light. The device also has a 2600 mAh battery that lasts almost a day with average use.

NIDHI SINGAL

Powerful processor, performance, camera

Unimpressive design, average battery

Otis



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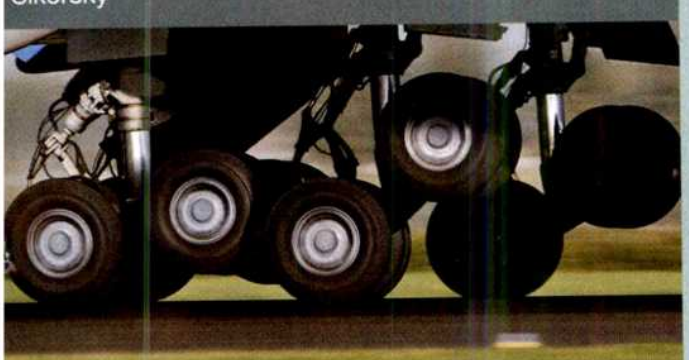

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Policy Prescriptions for the Global Crisis

The formation of the eurozone and a half-century of globalisation have rendered once-proven macroeconomic policies ineffective

The euro crisis has already transformed the European Union from a voluntary association of equal states into a creditor-debtor relationship from which there is no easy escape. The creditors stand to lose large sums should a member state exit the monetary union, yet debtors are subjected to policies that deepen their depression, aggravate their debt burden, and perpetuate their subordinate position. As a result, the crisis is now threatening to destroy the EU itself. That would be a tragedy of historic proportions, which only German leadership can prevent.

IN THE ABSENCE OF A SINGLE GLOBAL CENTRAL-BANKING AUTHORITY, A MODICUM OF MONETARY-POLICY COORDINATION AMONG MAJOR ECONOMIES IS REQUIRED

One thing that experts know, and that non-experts do not, is that they know less than non-experts think they do. This much was evident at the just-completed Spring Meetings of the International Monetary Fund and the World Bank Group – three intense days of talks that brought together finance ministers, central bankers, and other policymakers.

Our economic expertise is limited in fundamental ways. Consider monetary and fiscal policies. Despite decades of careful data collection and mathematical and statistical research, on many large questions we have little more than rules of thumb. For example, we know that we should lower interest rates and inject liquidity to fight stagnation, and that we should raise policy rates and banks' cash reserve ratios to stifle inflation. Sometimes we rely on our judgment in combining interest-rate action with open-market operations. But the fact remains that our understanding of these policies' mechanics is rudimentary.

These rules of thumb work (at least tolerably so) as a result of evolution. Over time, the wrong moves are penalised, and their users either learn by watching others or disappear. We get our monetary and fiscal policies right the same way that birds build their nests right.

As with all behaviours shaped by evolution, when the environment changes, there is a risk that existing adaptations become dysfunctional. This has been the fate of some of our standard macroeconomic policies. The formation of the eurozone and a half-century of relentless globalisation have altered the global economic landscape, rendering once-proven policies ineffective.

When Sweden's Riksbank was founded in 1668, followed by the Bank of England in 1694, the motivation was that a single economy should have a single central bank. Over the next three centuries, as the benefits of instituting a monopoly over money creation became more widely recognised, a slew of central banks were established, one for each politically bounded economy.

What was not anticipated was that globalisation would erode these boundaries. As a result, we have returned to a past from which we tried to escape – a single economy, in this case the world, with multiple money-creating authorities.

This is clearly maladaptive, and it explains why the massive injections of liquidity by advanced country central banks are failing to jump-start economies and create more jobs. After all, in a globalised economy, much of this

SANTOSH

liquidity spills across political boundaries, giving rise to inflationary pressures in distant lands and precipitating the risk of currency wars, while unemployment at home remains dangerously high, threatening to erode workers' skills. The long-run damage could be devastating.

What was evident at the World Bank/IMF Spring Meetings was that virtually all policymakers are distressed and no one has a complete answer. Neither do I. But here are two simple ideas that could help to mitigate the crisis.

First, in the absence of a single global central-banking authority, a modicum of monetary-policy coordination among major economies is required. We need a group of the major economies – call it "G Major" – that announces monetary policies in a coordinated fashion.

To see why, consider the case of Japan. Japanese policymakers have good reason to try to promote some inflation and even correct some of the yen's secular appreciation over the last six or seven years. But, in today's unilateral world, other central banks would soon respond by injecting liquidity, prompting the Bank of Japan to act again. These actions are usually justified as policies for boosting domestic demand, but they end up fuelling a surrogate, low-grade currency war.

If, however, the G Major economies issued quarterly announcements of significant upcoming policy changes – for example, a small round of quantitative easing by country X, a larger liquidity injection by countries Y and Z, and so on – markets would be reassured that a currency war was not being fought. Exchange-rate movements would be minimal and only as intended, and volatility would be contained, because tit-for-tat injections would no longer occur and speculation would wane. Moreover, liquidity injections would be likely to have a greater impact on demand, because synchronisation would reduce leakage across national boundaries.

The second recommendation pertains to the mechanics of liquidity injection, much of which takes place nowadays – in Europe, Japan, and elsewhere – through asset purchases. The US Federal Reserve, for example, is currently purchasing assets (many of them mortgage-backed) worth $85 billion each month.

Liquidity injections and low interest rates have a microeconomic effect that has received little attention: they lower the cost of capital vis-a-vis the cost of labour, which causes a relative decline in demand for labour. This is very likely exacerbating the unemployment problem: it certainly is not mitigating it.

One solution is to channel part of the liquidity injections towards countering this factor-cost asymmetry. Thus, for every $100 of new liquidity, we could use $60 to purchase assets and the remainder to give firms a marginal job-creation subsidy, which could be especially effective in economies with flexible labour markets that enable short-term hiring.

Even if the employment subsidy were offered only for, say, one year, firms would be tempted to use more labour during this time. And, because the current bout of high unemployment is self-reinforcing, once the equilibrium is broken for a while, the economy could move to a higher-employment equilibrium permanently, without the need for any further government support.

This prescription has one problem. Asset purchases have no balance-sheet effect, because assets replace money. Subsidising labour, by contrast, is a pure injection of liquidity. However, for precisely that reason, an employment subsidy is likely to be more effective in boosting demand, which implies that a smaller injection of this kind is likely to boost demand as much as a larger asset purchase would.

Among the few certainties in crafting economic policy is the need to adapt to external change. Our challenge is like that of Industrial Revolution-era moths, which adapted to their new soot-laden environment by becoming darker (and thus better able to hide from predators). In a globalised economy, national policymakers should not be left circling light bulbs. ◆

Kaushik Basu is Senior Vice President and Chief Economist of the World Bank and Professor of Economics at Cornell University
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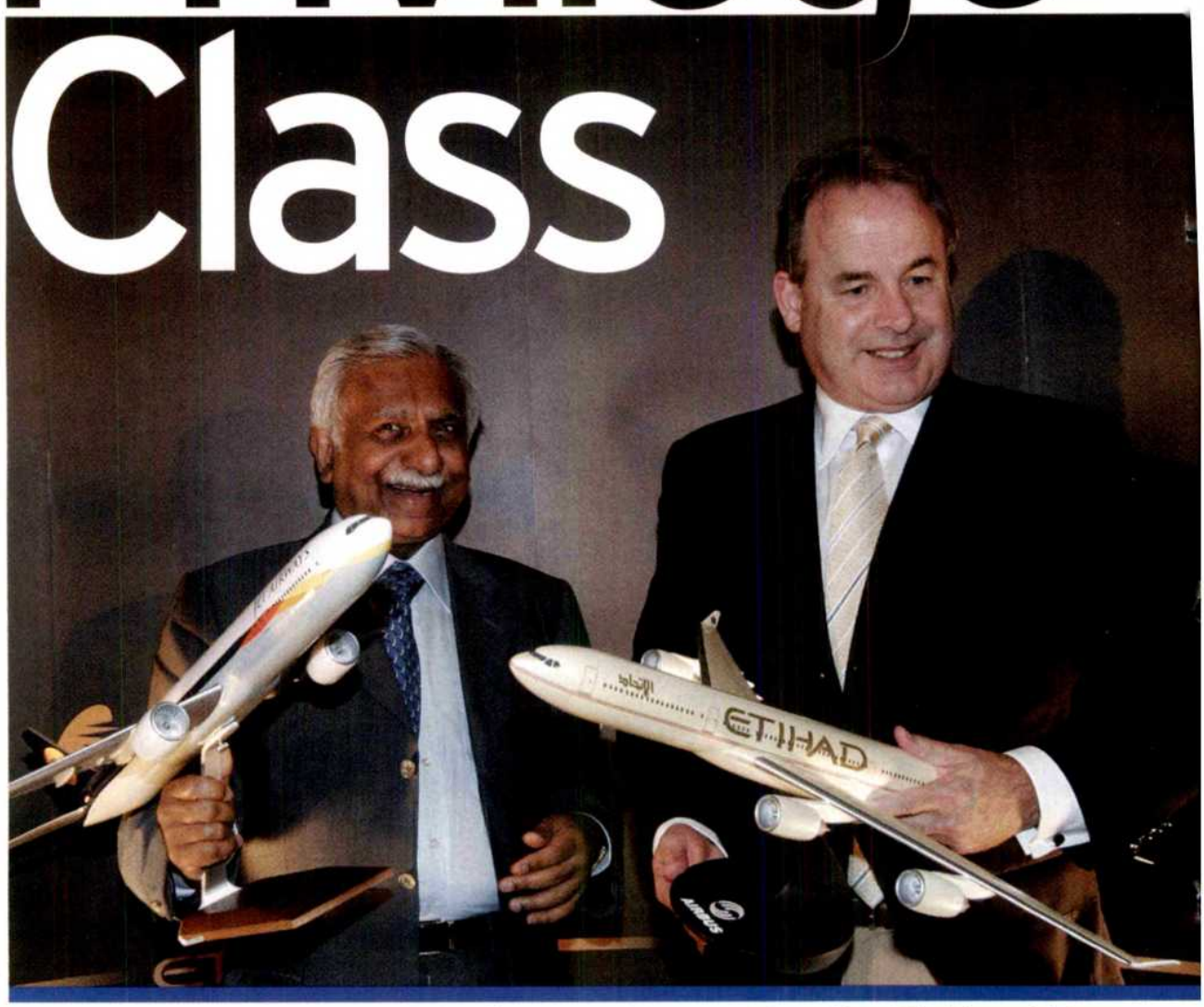
In Privilege Class

Etihad's investment is the lifeline that may help debt-laden Jet recover.

By K.R. BALASUBRAMANYAM



GETTY IMAGES

Taking Off: Jet Airways Chairman Naresh Goyal (left) and Etihad Airways CEO James Hogan celebrating their partnership

The irony couldn't be more startling. When the rulers of Abu Dhabi were putting together their own airline, Etihad Airways, in 2003, the founding team took tips from Indian airline tycoon Naresh Goyal, who had made Jet Airways India's leading carrier. Ten years later, the tables have turned and Jet has been forced to turn to the deep-pocketed Etihad for help. Last month, the UAE flag carrier announced plans to invest about $750 million in the indebted Jet Airways through both equity and debt, which includes $379 million for a 24 per cent stake.

The deal, which came after months of negotiations, is the first investment by an overseas operator in an Indian airline since the government liberalised airline investment rules last September. It's also a win-win situation for both sides. Goyal will be the biggest beneficiary of the deal struck at a 32 per cent premium over the stock's closing price before the agreement. He controls Jet through Tail Winds Ltd, a company registered in the Isle of Man which holds 80 per cent in Jet Airways.

The listed carrier is struggling with losses and is saddled with a debt burden of more than ₹13,000 crore. The fresh flow of funds will save Goyal's airline some ₹230 crore in interest costs annually, according to an Edelweiss Research note. Etihad will also invest $220 million in a frequent flyer programme and slots at Heathrow airport, and will arrange another $150 million to help Jet pare its high-cost debt. "One of the key challenges was that the prevailing stock price of Jet Airways did not reflect its fundamental value," says Raj Balakrishnan, Managing Director & Co-head of Investment Banking at Bank of America Merrill Lynch, which advised Jet on the transaction. "The key focus was to get buyers to recognise the strategic value of the airline."

For Etihad, the deal doesn't just give the Gulf carrier a foothold in one of the world's fastest growing aviation markets. It also helps the airline build the sheikhdom into an intercontinental transfer hub. Etihad, which has a fleet of 73 aircraft, flies to nine cities in India. But it can now access 23 cities, thanks to Jet. It can also use the Jet connection to tap the huge international traffic going through Dubai and route it through Abu Dhabi instead. "In the coming years, Etihad and Emirates will tap the same constituency of passengers flying beyond the Middle East, while Dubai and Abu Dhabi will compete as transit hubs," says an industry expert.

In 2012, Etihad flew 10 million passengers, about half the number Jet carried the same year

Some experts say Jet will now focus on its Abu Dhabi hub. "With India's largest carrier now moving its hub to Abu Dhabi, Air India struggling, Kingfisher grounded and all other airlines being point-to-point low cost carriers, there is no longer an Indian carrier with the capability to support the development of hubs at Delhi and Mumbai airports," adds Kapil Kaul, South-Asia CEO of Centre for Asia Pacific Aviation (CAPA), an aviation consultancy. "Jet will now focus on feeding its new Abu Dhabi hub."

Industry experts say the Jet-Etihad agreement is likely to put domestic carriers such as IndiGo, SpiceJet and Air India on the backfoot, and even force foreign carriers to rework their India strategy. US and European carriers may lose passengers to the Jet-Etihad combine. But, eventually, the

Booster Shot Etihad Airways is putting $750 mn into Jet. The breakup:

$379 million	$150 million	$70 million	$150 million
(₹2,050 crore) for **24 per cent stake**	(₹810 crore) as majority equity investment in Jet's **frequent flyer programme**	(₹378 crore) to buy **Jet's three pairs of slots** at Heathrow airport	(₹810 crore) **long-term soft loan** to help Jet cut its debt

Source: Etihad Airways/ media reports

Deep Pockets
A snapshot of Etihad Airways

Founded	Owner	Fleet	Also holds stake in	India Presence	Revenues in 2012	Net Profit in 2012
July 2003	Abu Dhabi government	73 aircraft	airberlin (30 pct), Air Seychelles (40 pct), Virgin Australia (9 pct) & Aer Lingus (3 pct)	63 weekly flights to nine cities	$4.8 billion (₹25,920 cr)	$42 million (₹226.8 cr)

deal will revive India's troubled airline sector. Mark D. Martin, Managing Director of Dubai-based consulting firm Martin Consulting, says the investment by the UAE flag carrier will help India's market grow and connect the country more strategically with the Middle East. "This is the first major FDI investment in an airline. It will strengthen our aviation sector," says Sidharath Kapur, Chief Financial Officer at the GMR Group-controlled Delhi International Airport Ltd.

Industry executives think fresh equity participation by foreign airlines was inevitable due to the poor health of Indian carriers, but they say the Civil Aviation Ministry's decision to approve a new bilateral agreement with Abu Dhabi was a quid pro quo for the investment in Jet. They say the ministry increased the number of weekly seats to Abu Dhabi almost threefold at lightning speed to pave the way for the Jet deal. "The short-notice negotiations have displeased some in the Indian industry, but it is another example of India's ad-hoc policy implementation," says Kaul. "Goyal got a higher valuation for his airline because India granted more seats to Abu Dhabi, not because of Jet's balance sheet," adds a senior executive at another airline.

The ministry's decision is expected to open the floodgates for similar demands from other countries, especially from the Gulf and Europe. India has not, so far, allowed Lufthansa and Emirates to operate A380s. Emirates has the world's largest fleet of A380s – 31 in operation and 59 on order – and is building a business strategy around these giant planes. "It is high-time India did away with bilaterals for good and moved towards an open sky environment," says aviation consultant Martin.

Either way, most experts expect Etihad's partnership to cut Jet's operating expenses and lift its bottom-line. They cite the example of four other carriers that Etihad has minority stakes in – airberlin, Air Seychelles, Virgin Australia and Aer Lingus – which posted impressive profits in January-March. Once the capital infusion is complete, Jet Airways too is likely to undergo a management revamp. "As well as increasing top-line revenue, our equity partnerships will improve bottom-line results, through cost savings delivered by operational synergies," Etihad CEO James Hogan said, while announcing the quarterly results.

Hogan has transformed Etihad from just another small airline into a global carrier with his strategy of equity investment and code-share agreements. Although the 10-year-old airline lacks the scale of Emirates Airline or Qatar Airways – they have 190 and 124 aircraft respectively – Hogan and his team are working to narrow the gap. Until he took over in 2006, Etihad had about nine aircraft; today, it's a global carrier with 73 planes and 42 code-share agreements.

The Australian who began his career as an executive at the check-in desk of the now defunct Ansett Airlines at Melbourne airport stunned the industry in 2008 when he ordered 205 aircraft worth $43 billion at the Farnborough International Air show in one of the largest deals in aviation history.

Will Hogan transform the airline business in India in a similar manner? The founder of India's first budget carrier, G.R. Gopinath, says Etihad will introduce new routes, create hundreds of new jobs and a new flyer experience. And passengers can look forward to great bargain fares. ◆

Losing Height
Jet Airways has incurred losses in four of the last five fiscal years

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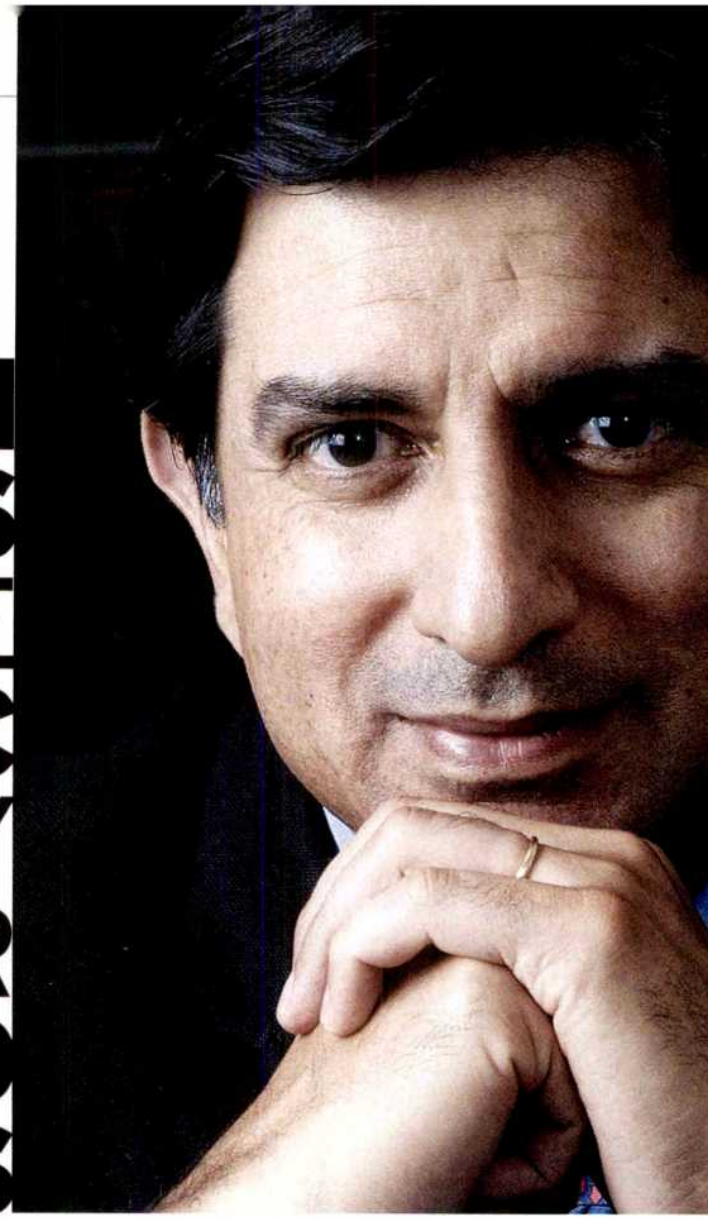
INDIAN MANAGERS ARE FANTASTIC BUT THEY HAVE NEVER MANAGED OVERSEAS



***Gautam Thapar**, Founder and Chairman of the $4 billion Avantha Group, which includes Ballarpur Industries and Crompton Greaves, talks about his group's prospects, the state of the economy, and much else in an exclusive interview with **Govindraj Ethiraj** on the show **Bottomline**, which airs on Headlines Today. Edited excerpts:*

What does Avantha stands for?

The word is coined from a combination of two words: *avancer*, the French word for 'advance', and 'tha' from the Sanskrit word *sthapana*, which means being grounded. Move forward, but on a solid, firm footing, that's what Avantha means. Of course, some people say the 'tha' in Avantha is short for Thapar.

How does this name and what it stands for relate to the environment around you?

I think our footing is solid in terms of the businesses. We have done a lot of work in the last seven to eight years in both the big businesses, which are Crompton (Greaves) and Ballarpur. Some of that work has paid off. Some involved restructuring for tomorrow. In the case of Ballarpur, today we have a million-tonne capacity, we are growing. In the last two quarters, we have started to show that growth, especially in margins and profitability. All the investments we have been making for almost five years now will start coming to a finish. In the case of

For the full interview go to
www.businesstoday.in/gautam-thapar

Crompton, it has been a re-tooling of the business to drive it as a global business as opposed to driving it as an Indian business. That is going to take time.

So how do you compete when you have global majors coming in with better technology? There was a method behind what we did, we never did anything very large. We tried to fill in the missing pieces, we acquired certain customers overseas. Where we failed was at integrating the businesses together to look at the world as one...

To what extent is the growth of your group intertwined with that of the economy?

It is, because at the end of the day the largest manufacturing base we have is here (in India), whether it is paper (Ballarpur Industries), or Crompton Greaves. What has been lacking is the policy framework that keeps growth going forward with some amount of predictability, which then allows us to make investments and harvest the returns and reinvest and grow the business. Our European businesses may be growing at one per cent or 0.5 per cent, but they are growing. They are of a lower base. In our businesses, we are not that large in structure... There are inherent advantages that being in a large economy, in a growing economy, brings you in terms of scale and cost. The question is whether you have a seamless product for every market. The answer: not yet.

There is an air of despondency in India today. Would it be fair to say that you are not as affected by the economy as, maybe, some other businesses are?

It would. Crompton's challenges are internal... If you look at Crompton's order book, it is full. The problem is that whatever I already have in my order books, I am not able to execute properly because of internal structural issues and also because markets have shifted, customers have changed... I am struggling because of a lack of cohesion around the integration of the two main businesses.

How do you see the India story at this stage?

We have fallen a long way... So, when we gear ourselves up, we are gearing ourselves for a very different paradigm, going forward... If things like the GST (goods and services tax) come into force it will make a difference at the margins. Okay, I don't need to have stock transfers, I can manage my business a lot more efficiently, I can make a 100 basis points difference to my margins and things like that. But for anything else, unless you get the economy back at around 6.5-7 per cent growth, the need to spend on capacity expansion and to invest is not there. You can't go through four years of zero investment in virtually every sector of the economy and not expect that to be (a) inflationary and (b) if supply side constraints come from productive capacity, that prices are not going to move up...

Business is not bad. We are selling. We are recovering. Margins are not great, but that is a general thing. But I am also not making investments. So my balance sheet is okay. I'm sitting with cash out there. I'm doing some re-tooling, I'm doing some restructuring. Everybody is doing a little bit of brownfield work, spending ₹1,02,050 crore, that sort of thing. But tell me, have you heard of a single major investment in the last two years?

Have we in some ways killed manufacturing due to our focus on services, or because we have taken our eyes off the economy?

I don't know whether you have killed manufacturing. (No doubt) for an economy of this size to have manufacturing at 17, to 19 per cent, depending on how you compute it, is a bit strange... You are not killing manufacturing but you haven't really done anything to nurture it. The framework, the linkages, the infrastructure is just not there to take manufacturing from 18 per cent to 26 or 28 per cent of the GDP. Some of the biggest investors in the world say that investing is an act of faith. That environment is not there... Is manufacturing going to reach 26 to 28 per cent? Maybe, in 10, 20 years. What is going to be Indian entrepreneurial share of that manufacturing? That is a more interesting question to ask. If you listen to Indian entrepreneurs, I don't hear anybody wanting to plunge into new manufacturing business.

There is a feeling that the government has abandoned industry and is antagonistic towards business. How do you see it?

The manufacturing (sector) forgets that this was the case some 20 years ago (as well) so it is not something we are dealing with today. The nature and structure of this country, both socially, politically and otherwise, is such that you have to always keep in the back of your mind that this is not an American-style free enterprise (loving nation). There are forces in this country that want to counterbalance any excess on the side of capitalism. So...

WE NEVER DID ANYTHING VERY LARGE, WE TRIED TO FILL IN THE MISSING PIECES

How do you respond to such a view?

Well, I am of the view that you create wealth first and then redis-

tribute it. That is the best way to do it, but for that you need well-functioning government bodies. You have to deliver what you set out to deliver as a government. Otherwise you get a situation where a lot of wealth is being created but none is being shared and you start wondering how sustainable is that... It is not sustainable. As you open up industries and sectors you need to have regulators. Some of the regulation which has come was required. But do you really need to regulate everything under the sun? That too is not necessary. There are areas where regulation is required and areas where it is not required. You need to draw a balance because the more you regulate, the more difficult you make it for entrepreneurial zeal and entrepreneurial zest...

Do you feel we are killing our entrepreneurs?

There seems to be a misunderstanding on the part of the government about our capacity to do certain things as an industry. I think that the gap (between government and the manufacturing industry) has been widening in the last few years. That is why it is so much easier to go into services.

Or go out of the country?

They all say they want to go abroad because they want to de-risk the business. I don't agree. It's not de-risking. You are dealing with a whole new geography, a whole new political set up, a whole new set up of regulations, different set of customers. Are you really de-risking your business? I have a different view. You are still better off investing at home provided you build a position in your business which makes you sustainable and competitive... If you are not competitive at home, how do you expect to be competitive abroad? It may look more attractive to go out there but you need to understand how to manage in those countries, how to manage the culture issues and how to integrate.

Indian managers are fantastic but they have never managed outside of India. You need to create an environment where Indian business actually starts producing managers who are confident enough, capable enough to go out there. For 70 years we have been purely an Indian company with an Indian customer base... Suddenly there is a paradigm shift. We are international. We had to go out but we didn't have that in our DNA because in manufacturing we have never set the rules of the game and in these industries it is Western Europe and the US which sets the rules.

And China...

China has followed their rules and taken one step ahead. Logically investment should come here because after China we are the biggest economy in the region. Over the next 15 to 20 years we should be able to provide a pull to get those guys in here or get Indian entrepreneurs to set up shops here to conquer the same world which Chinese low-end manufacturing was doing 20 to 25 years ago.

What's your outlook for next year or so?

Whether it is five per cent or six per cent growth, it doesn't matter. I am not expecting any sharp rise. How sustainable is such growth? People have aspirations, expectations have gone up, they have taken loans and they expect their compensation to grow. But suddenly you have inflation, slowing down growth. Would the government like a strong Indian entrepreneurial class running manufacturing business in this country, or does it feel that it is immaterial? If the ownership of manufacturing business is immaterial, then you can carry on like this... If this is the case, one should not expect entrepreneurs to really come forward or do anything. If the message is that we really don't care about who owns manufacturing assets in this country as long as people are investing in manufacturing, then you have people like me who have large companies and who will slow down our investments. But if we have enough faith in the position we have in the economy, then ultimately we will have to invest. But it will not be in the next 12 to 18 months... that I can say. ◆

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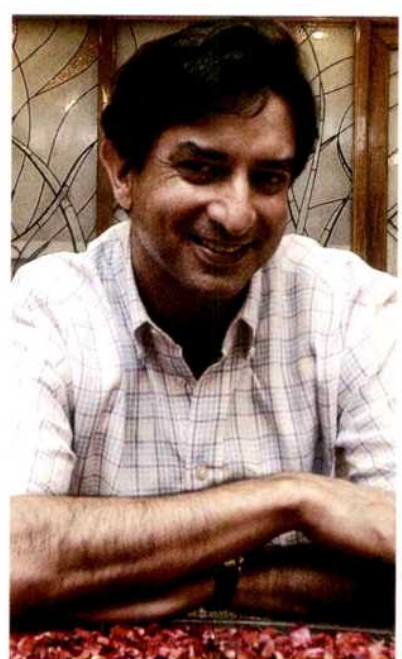

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HAVE YOU HEARD OF A SINGLE MAJOR INVESTMENT IN THE LAST TWO YEARS?

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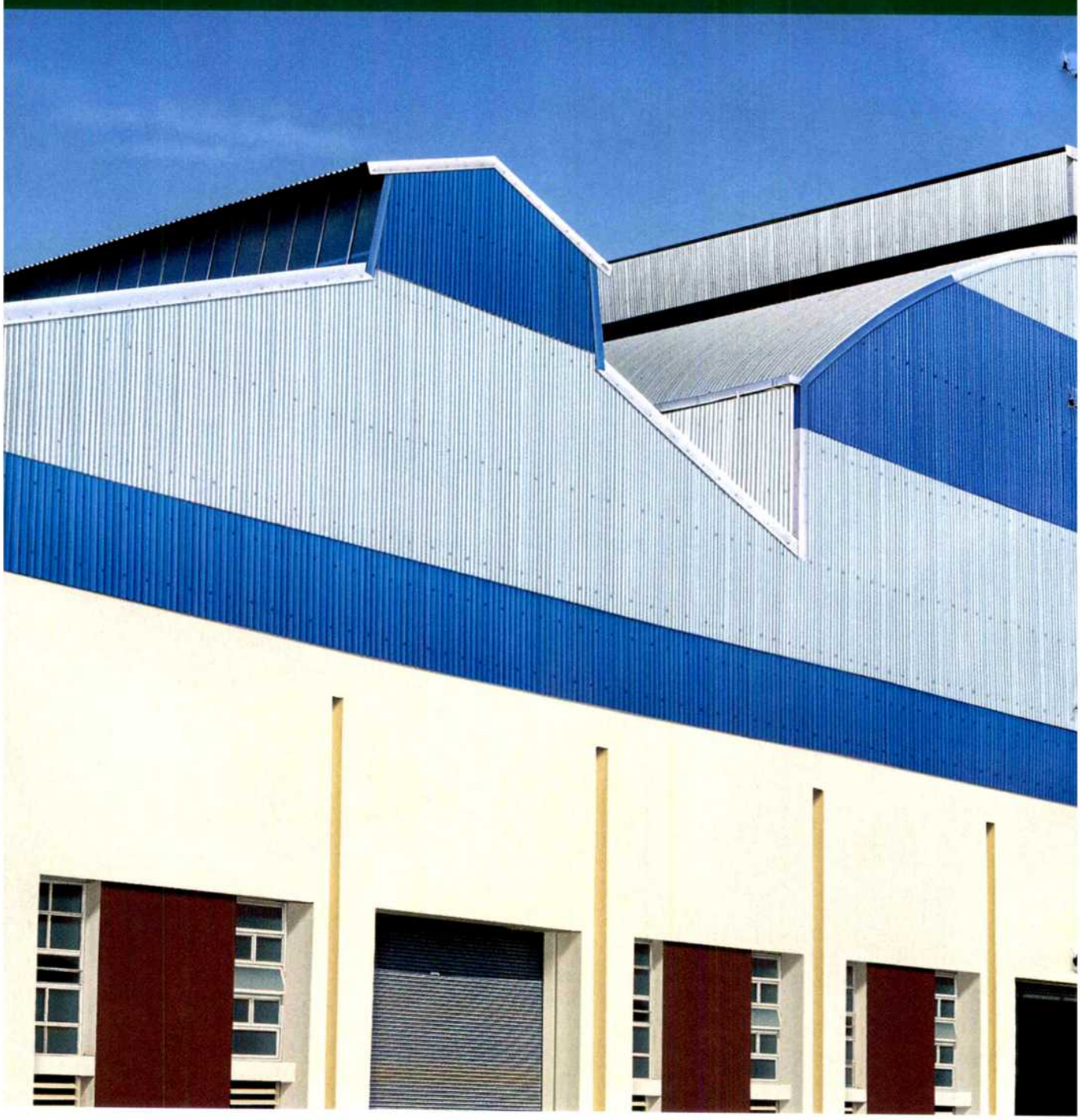

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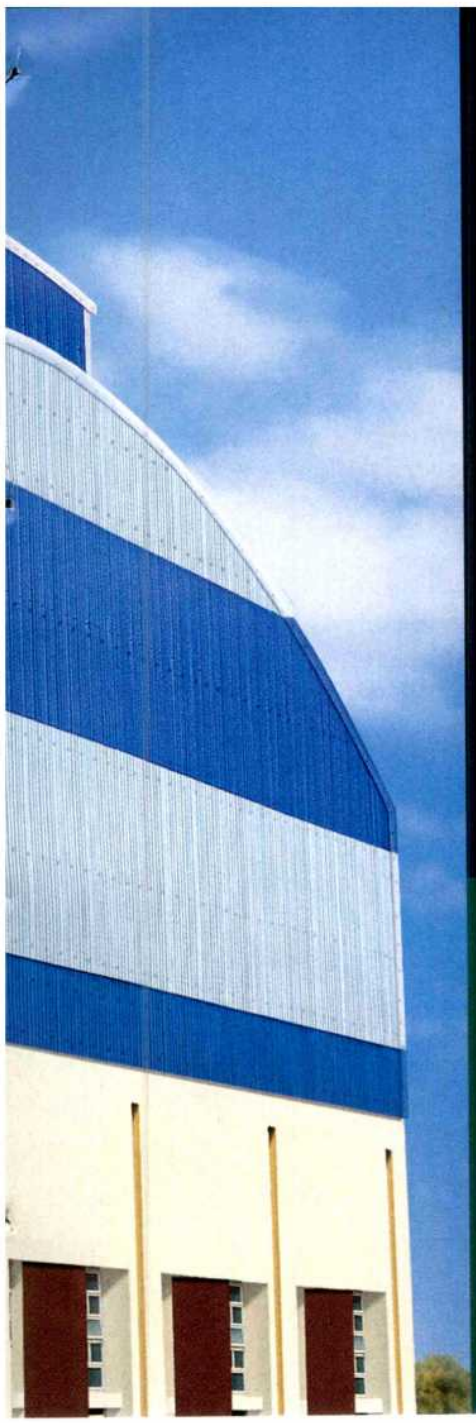

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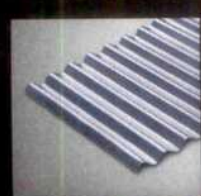

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Starting a New Course

Y.K. Hamied steps down as managing director. What does it mean for Cipla?

By E. KUMAR SHARMA

Tucked away neatly in a corner in the Mumbai office of Yusuf Khwaja Hamied is a desk stacked with journals and reference papers. Hamied, 76, subscribes to about 400 journals and spends close to five hours reading those every day. He makes some markings on those journals in red ink and sends them to the senior management of his pharmaceutical company Cipla. Why? "Because I am seeing things in totality," he says with a gentle smile.

Seeing things in totality, perhaps, is what prompted Hamied to redefine his role at India's third-largest drug maker by market value. On February 6, the septuagenarian announced he would step down as managing director after nearly four decades at the helm of the company his father, K.A. Hamied, founded in 1935 as Chemical, Industrial and Pharmaceutical Laboratories. February 6 holds a special place in Yusuf Hamied's heart for another reason. It was on this day in 2001 when he jolted the global pharmaceutical industry with his offer to sell anti-AIDS drugs at a fraction of the price charged by multinational drug makers in Africa. At the time, global drug makers were charging as much as $12,000 for a year's dose of AIDS drugs in the West. Cipla priced its Triomune – a combination of three generic medicines – at $300 a year, or less than one dollar a day.

"The whole course of Cipla's destiny and history changed on that day when we took the lead in AIDS drugs," Hamied told BT shortly after the February announcement. "At that time hardly 2,000 people in the

Peer Review

How Cipla fares against some of its main competitors

	Total income	Operating profit	ROCE** (%)	R&D spend	Market cap***	Employees
Cipla	**7,268**	**1,898**	**19.84**	**251**	**32,221**	**20,000**
Ranbaxy*	12,595	2,218	2.04	478	19,028	14,600
Dr Reddy's	9,987	2,500	16.91	373	33,970	16,500
Sun Pharma	8,621	3,749	27.23	225	101,924	14,000
Lupin	7,165	1,463	23.04	357	31,567	14,000

*Numbers for Ranbaxy in ₹ crore for year ended Dec 2012, for others figures are for year to March 2012;
**Return on Capital Employed; ***Market cap as of May 3, 2013 Sources: ACE Equity, Companies, BT Research

Still going strong: Cipla Chairman Y.K. Hamied

Hamiedspeak

ON RESEARCH VERSUS LOW-COST MEDICINES:

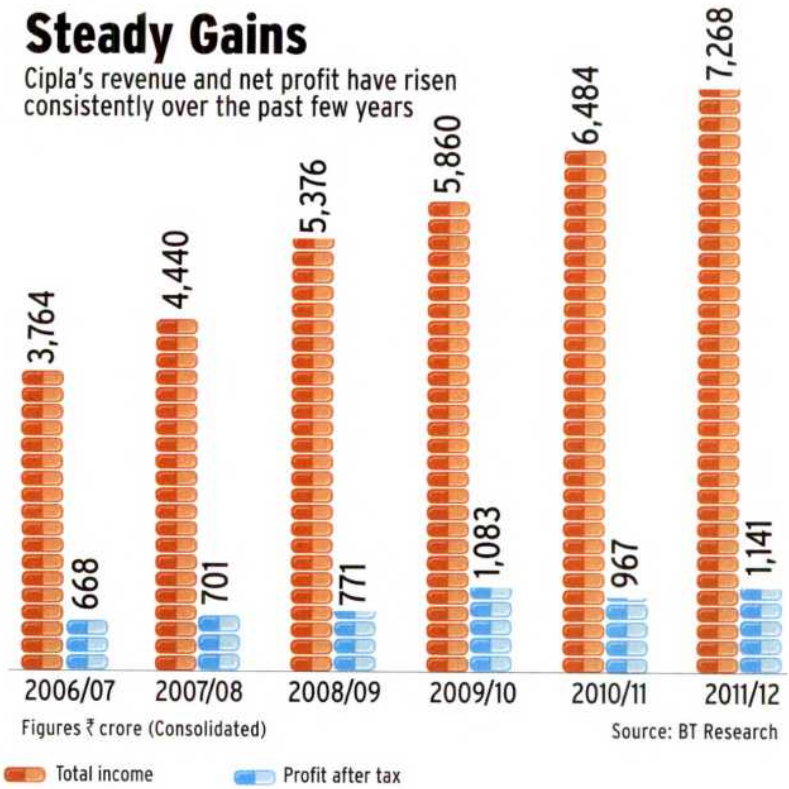
If you want prices to be low, don't ask us to do fundamental research. The two don't go hand in hand. You can't have cheap medicines and at the same time compete with the big boys

ON FAMILY-RUN BUSINESSES:

It is only up to a certain stage that a company can be managed individually. When it cannot be managed individually, the management structure has to change. (For a higher growth trajectory) you need professional management

ON NET WORTH AND SHAREHOLDING:

Shareholding in a company is like toilet paper. If you are not planning to sell your stake then its value is zero



whole of Africa could afford treatment for AIDS. Today, there are over eight million being treated. That gives a lot of satisfaction."

Hamied, arguably the most combative CEO in Indian pharmaceutical industry, has always maintained that he believed in making affordable medicines. Cipla has been among the few to voice concerns over alleged attempts by big multinational pharmaceutical companies to extend patent rights over products by making minor modifications, a practice called "evergreening" in industry jargon. The company was among those who welcomed the Supreme Court of India's April 1 decision to reject a plea by Swiss drug maker Novartis seeking a patent for its cancer drug Glivec.

Management Changes

While the launch of the AIDS drug in Africa was a defining moment for Cipla, Hamied's decision to function as non-executive chairman from April 1 and other management changes are equally significant. The move is part of a major transformation aimed at propelling the company into a new orbit. Over the past few months, Cipla has appointed a chief executive for the first time and hired several other professionals to lead its businesses in overseas markets. The company is also tweaking its business model and gearing up to benefit from the opportunities of the future. In short, it is seeking to reinvent itself.

"Building a commercial presence and hiring the right people cannot be done overnight but Cipla is surely making progress"

G.V. Prasad, Chairman and CEO, Dr Reddy's Laboratories

"You can manage to grow a company individually only up to a point," Hamied told BT in an interview in his office in late April. "I can't manage a ₹8,000 crore company individually. I need professional management if I need to grow from ₹8,000 crore to $5 billion (₹27,000 crore) in the next 10 years." This explains his decision to hire Subhanu Saxena as CEO, and Timothy Crew and Frank Pieters to lead the US and European businesses.

While Saxena joined from Swiss drug giant Novartis, Crew and Pieters previously worked with Israel's Teva Pharmaceutical. All three come with rich experience. Saxena has worked with Citigroup, the Boston Consulting Group, and PepsiCo. In his last assignment, he led the global product strategy and commercialisation functions at Novartis. Crew was earlier the head of generics division for North America at Teva. Pieters played a significant role in accelerating growth of Teva's respiratory business globally.

The Hamied family's role has been reoriented as well. M.K. Hamied, Yusuf's younger brother, has been elevated to Managing Director from Joint Managing Director earlier, though he is also likely to retire soon. While Yusuf Hamied has no children, both of M.K. Hamied's children have taken up leadership roles. M.K. Hamied's son, Kamil, who has been with the company for the past few years, has been named Chief Strategy Officer and will report to Saxena. He will be responsible for strategic alliances and evaluation of licensing deals as well as mergers and acquisitions.

Kamil's sister, Samina Vaziralli, will work with Cipla New Ventures, the company's venture capital unit set up in April this year. Vaziralli has

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• This schedule is for the period April 29th, 2013 to June 1st, 2013.

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previously worked with the investment management division of Goldman Sachs. The idea behind setting up the unit is "to build new business streams of the future without the distraction of the current business," Saxena said in an email interview. Cipla New Ventures will act like a holding company with a portfolio of four or five new businesses. These new businesses include developing medicinal products based on stem cells and biosimilars, or copies of branded biotech medicines.

Management consultant Nabankar Gupta endorses the leadership changes. The infusion of fresh blood is essential as founders can take a company only to a certain level, he says. "The rules of the game change with time. The strategic thinking has to be different, opportunities are different and the risk-taking is also different. So, if you want to propel growth at a much faster rate, then you certainly need to have a completely new team."

New Business Model

Cipla has always been known for its product development skills and manufacturing prowess. It has seldom had any direct marketing or sales presence in overseas markets, preferring instead to tie up with local distributors. That is set to change in some markets. "We want our own direct presence in Japan, Africa, America and Europe," says Hamied, who received the Padma Bhushan, India's third-highest civilian honour, in 2005. "We cannot work totally with a partnership model. It has to be a direct customer-facing presence."

Saxena explains that the company will build a marketing and sales network in a few countries only. In markets such as the UK and Germany it will be directly tendering for business instead of going through a partner. In some other countries it will form strategic alliances, he adds.

"We have over 100 projects in our development pipeline including novel combinations and generics"

Subhanu Saxena, CEO, Cipla

The company has also started filing applications for generic drug approvals on its own for markets like the US instead of going through local partners. Besides, it is evaluating the possibilities of making acquisitions in countries including Brazil, Turkey and Japan. "We are keenly looking at some of these markets... because some of them are becoming quite strategic in nature," Chief Financial Officer V.S. Mani told analysts on February 6 on a conference call to discuss quarterly results. He ruled out big-ticket acquisitions to establish a direct marketing presence overseas.

As part of efforts to build a direct marketing presence, the Indian drug maker has offered to acquire Cipla Medpro in South Africa for about half-a-billion dollars. Cipla Medpro was set up as a joint venture between the Indian company and South Africa's Medpro Pharmaceutica. Cipla Medpro is now South Africa's third-largest pharmaceutical company with strong presence in cardiovascular, anti-retroviral, respiratory and neuropsychiatric categories. The deal, if it goes through, will be the biggest foreign acquisition by Cipla and will give it greater access to an important export market.

Cipla, which supplies medicines to nearly 170 countries, also wants to establish a direct marketing presence in the United States and other tightly regulated markets. Analysts say the company will have to iron out issues related to supply chain, contacts with traders, extending credit to customers, and setting up inventory to build a strong marketing presence overseas.

In the US, the world's largest pharmaceutical market, it will have to build relationships with insurers and Pharmacy Benefit Managers, who process and pay prescription-drug claims. In Africa, Cipla could face stiff competition in the private sector though an entry into the government segment is not as difficult.

Anubhav Aggarwal, Vice President at brokerage Credit Suisse, says Cipla is unlikely to face too many problems in the US as it has been there for close to 15 years through partners. Emerging economies will be the bigger challenge, he feels. In Europe, where Cipla sees a market for its respiratory portfolio, the challenge may only be getting product approvals in multiple countries, he adds.

"Building a commercial presence and hiring the right people cannot

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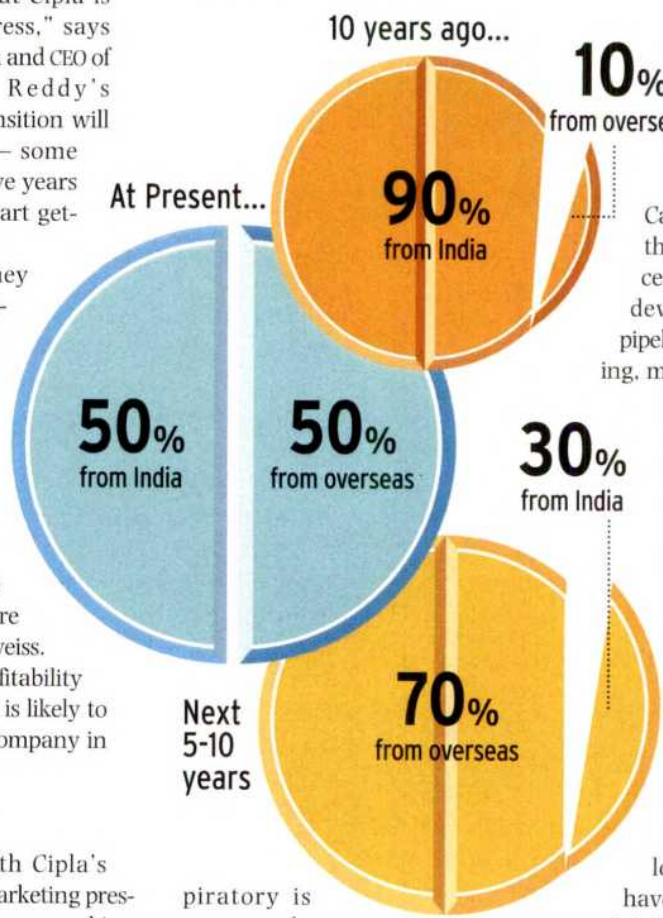
be done overnight but Cipla is surely making progress," says G.V. Prasad, Chairman and CEO of drug maker Dr Reddy's Laboratories. The transition will be time-consuming – some expect it could take five years for the company to start getting the full benefit.

In the interim, they expect the increased expenses on establishing sales and marketing presence to hurt profitability. "It may be too early to comment on the change of strategy and how they execute it," says Manoj Garg, Vice President for health-care at brokerage firm Edelweiss. "This may impact profitability in the near term but it is likely to be a win-win for the company in the long run."

Past, Present, Future

Cipla's revenue breakup



Focus on R&D

Running parallel with Cipla's plans on growing its marketing presence overseas is its focus on making more medicines affordable. The company has in the past year slashed prices of drugs to treat lung and breast cancer, among others. "We will develop new molecules over the next few years as part of our strategy to strengthen key therapeutic areas," says Saxena. "We have over 100 projects in our development pipeline including novel combinations and generics. Our focus is to bring each and every one of these products to market."

Saxena says the company is changing the way it deals with its strategic partners while developing a product. Cipla will now "proactively decide" what it wants its portfolio to look like, instead of making whatever its partners want. "For example, respiratory is an area where Cipla has unique capabilities and where we will develop a rich pipeline over the next five years," he says. Cipla has a 45 per cent market share in anti-asthma drugs in India, according to data from health-care market research firm IMS Health.

Saxena also says Cipla will assign one team each to work on a project from start to finish, and not have each function working separately on the project. "This approach will allow us to target the right therapies and have resources totally aligned across the company on the right projects," he says.

What is Hamied's take on research and development? He says Cipla spends at least $100 million a year on R&D. But, for the Indian industry, the future in R&D will largely be in "incremental innovation" and not fundamental research, says Hamied, a Ph.D in chemistry from Christ College, Cambridge. His comments reflect the struggles big global pharmaceutical companies are facing in developing new drugs. As the pipeline of blockbuster drugs is drying, many big global companies are building their presence in the generics market. "If you want prices to be cheap then don't ask us to do fundamental research. The two don't go hand-in-hand," he says.

In another conversation in mid-April, Hamied said over the phone from London that until India passed the 2005 patent law, which has allowed product patents, the company could make any product it wanted. But this is no longer the case. Cipla would have to position itself on the lines of global generic majors such as Teva or the US-based Mylan. That again may not be easy, as these generic companies have grown in size mainly through acquisitions while Cipla has rarely adopted this route.

What is engaging Hamied's attention at the moment? "My only purpose in life today is how to get the 2005 patent bill revoked so that it suits India," he says. "Its effects will start kicking in from 2015 and people like you, me and others will not be able to afford drugs."

Coming from someone who made life-saving medicines affordable for millions that surely is a dire warning that big drug makers better take seriously. ◆

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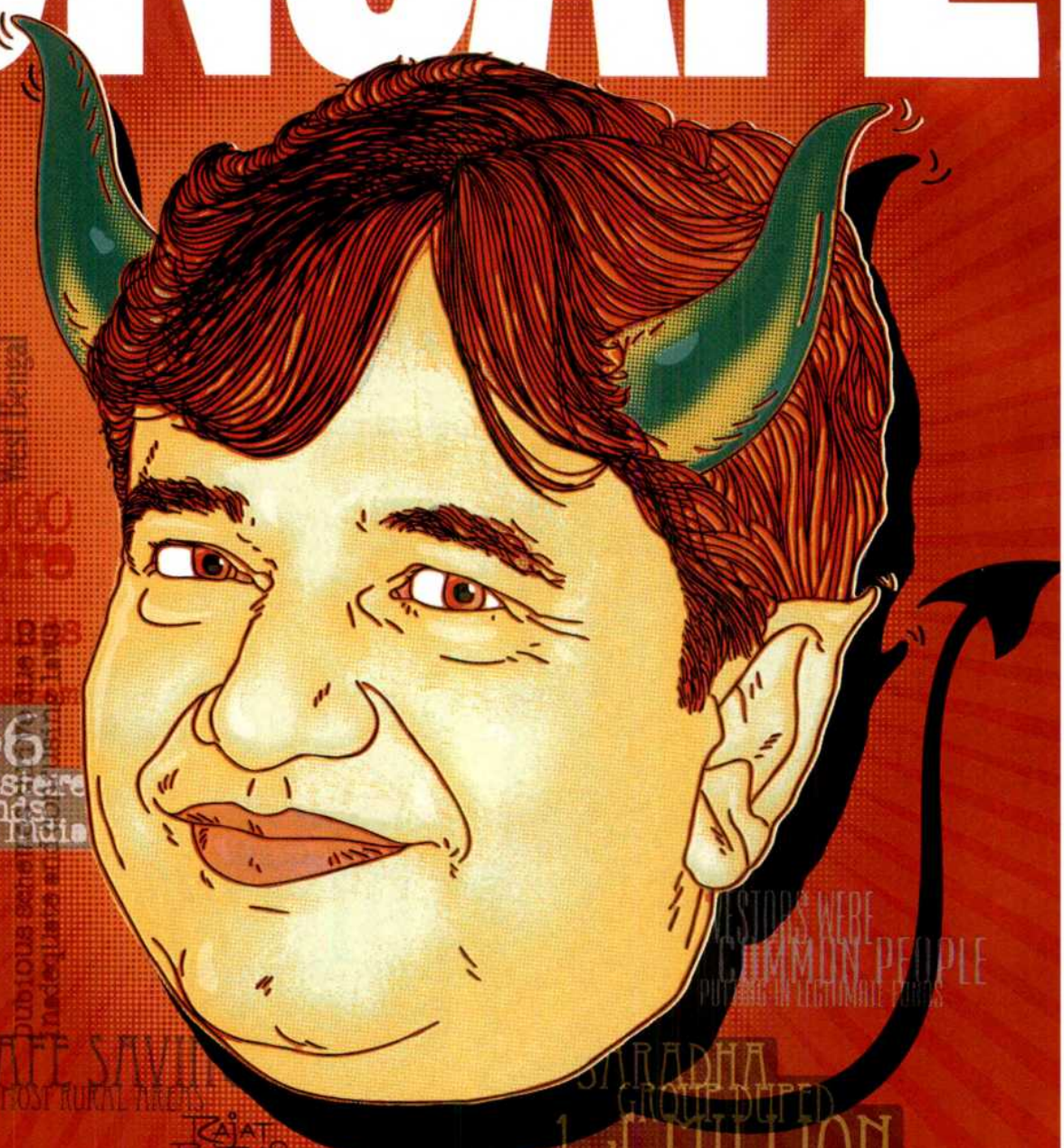

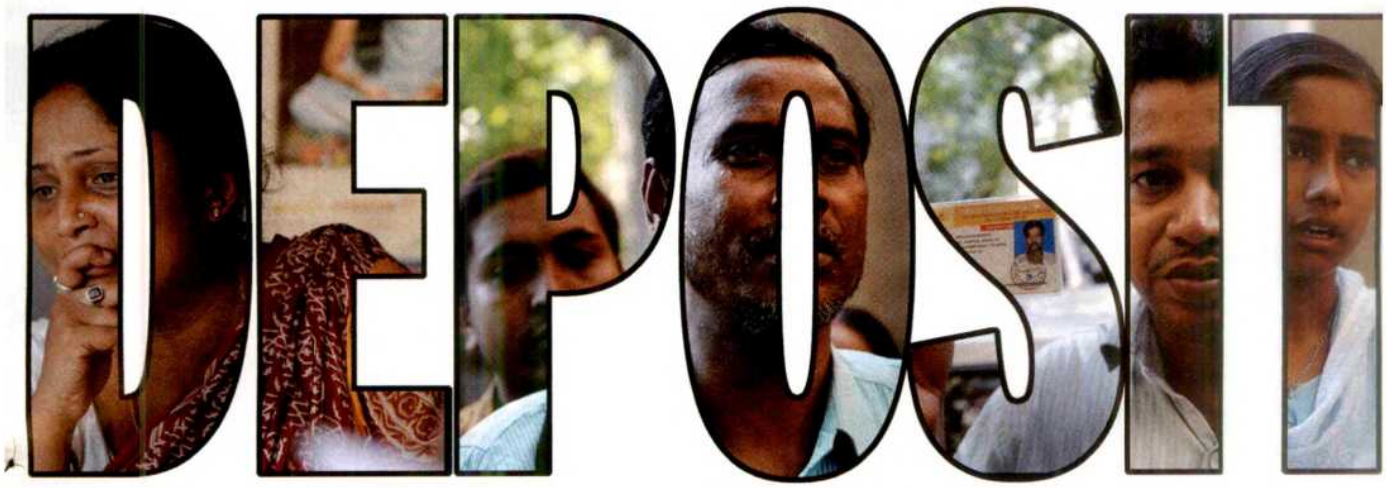

Given the lack of well-regulated options, Sudipta Sen's Saradha Group, which duped 1.4 million investors of ₹4,000 crore, may just be the tip of the iceberg

By M.G. ARUN

The asphalt road to Pradip Chakraborty's home in Dakshin Barasat, a largely rural settlement in West Bengal's 24 Parganas South district, 40 km from Kolkata, is narrow and shimmers in the April heat. Inside the house – an old fashioned, whitewashed, two-storey structure with pictures of the mystic Sri Ramakrishna Paramahansa and his wife Sarada Devi adorning the entrance – Chakraborty is on the phone, inviting people in his neighbourhood over. Many arrive in anxious haste.

Chakraborty, 56, was the most successful agent in Dakshin Barasat of the now busted Saradha Group. He was one of three agents ranked 15th by the company, the highest in its hierarchy of agents, entitling him to plump commissions.

Over the past three years, the former Khaitan India and Eureka Forbes salesman had enrolled 500 agents for Saradha's so-called chit fund scheme, each of whom enrolled at least 50 investors. This made Chakraborty's unit a large chain of 2,500 investors with deposits of ₹10 crore. "Sudipta Sen cheated us," says Chakraborty, sitting cross-legged on his bed. He is alluding to the Saradha Group's Chairman and Managing Director, who was arrested on April 23. "We got carried away by the name of Sarada Devi (adapted by the fraudster with an 'h') and Sen's connections with the ruling Trinamool Congress and Chief Minister Mamata Banerjee. For many of us, death seems to be the only way out."

Many Saradhas

The Saradha scam has duped 1.4 million investors of ₹4,000 crore, but this could well be the tip of the iceberg. Driven by the lack of legitimate savings schemes for the rural poor, inadequate regulations and political patronage, hundreds of illegal Ponzi schemes masquerading as collective investment schemes or chit funds have sprung up across India.

On March 14, Corporate Affairs Minister Sachin Pilot presented a list of 87 such companies in Parliament, against whom complaints had been received for indulging in Ponzi schemes. Seventy-three of these were from West Bengal. Eight companies of the Saradha Group figure in the list, as do 16 companies owned by Rose Valley, a sponsor of the IPL team Kolkata Knight Riders. Also on the list are the MPS Group (four companies), Vibgyor Group (two companies), Prayag Group (four companies), and the Rahul Group, among others. The ministry has ordered the Serious Fraud Investigation Office to fast-track investigations into the working of these organisations.

Many of these companies are engaged in a dangerous "money chain" where one investor's principal and interest is paid off with money from new investors. Such schemes collapse when no new investors come in, or when suspicious investors demand their money back in one go. Like the

THE LAW IS LESS

Parallel Lines

States monitor chit funds

SEBI oversees collective investment schemes

The RBI regulates NBFCs

Confusion Compounded

The RBI acknowledges the menace of collective investment schemes in the name of chit funds, but says the onus of regulating them is on states

SEBI is said to have written to the finance ministry seeking a regulator for deposit-taking companies

Court Trouble

SEBI is embroiled in several cases with promoters of questionable schemes

SEBI rejects MPS Group's application for a collective investment scheme. MPS goes ahead with its plans, armed with a provisional registration

SEBI tells Rose Valley to stop collecting money, but the company gets relief from Calcutta High Court

ILLUSTRATIONS: SANTOSH

Saradha Group, these companies take money from investors in the name of tour packages, investments in agriculture, or purchase of plots or homes in prime locations over a specified period of time, with a money-back option added at the end of the maturity period. Investors are encouraged to cancel their bookings and re-invest the money in new projects, since, in most cases, there are hardly any projects on the ground, or they fall way below the value of the investment garnered. The money thus raised goes into the pockets of the promoters of such schemes.

In April, Securities and Exchange Board of India (SEBI) Chairman U.K. Sinha said at a seminar in Mumbai more than ₹10,000 crore had been raised by so-called money circulation schemes, or by people who run collective investment schemes but refuse to be under any sort of regulation. "People who invest in such products are simple, ordinary workers," says Sinha. "They are not putting in illegal money. They are putting their hard-earned money into this. But the process through which it is channelised is, unfortunately, taking that money out of the legal framework."

SEBI is probing several such companies. The money raised by these firms could be higher than SEBI's estimate, given that Sen alone is said to have duped investors of ₹4,000 crore. Rose Valley Real Estate & Constructions, for instance, had raised ₹1,272 crore as of March 31, 2010. Sitting in his office in Kolkata's Park Street, MPS Group Chairman P.N. Manna says in the last 13 years, his company, MPS Greenery Developers, collected ₹1,765 crore from 1.8 million investors in West Bengal and neighbouring states such as Assam and Orissa, through a scheme that "fulfils all parameters". But he admits he is yet to get a registration certification from SEBI.

Growing Presence

According to the Corporate Affairs Ministry, there were 4,156 chit funds registered in India as of 2008, governed by the Chit Funds Act, 1961 (Madras Act) and the amended 1982 (Central) Act. However, unregistered chit funds would be several times the number. According to a January 2007 study by the Institute for Financial Management and Research, "the unorganised chit fund market is huge and growing". For instance, it noted that 6,000 of Hyderabad's total of 7,300 chit funds were unregistered.

Chit funds help small traders and businessmen save excess cash on a daily or monthly basis, and have become a major savings option in India. Interest rates are around 12 per cent a year – which is low, considering money lenders, on whom many rural Indians rely, charge as much as 72 per cent. Interest on bank fixed deposits is around seven to nine per cent.

However, the Saradha Group was not running a chit fund. It has denied SEBI's allegations that it was running an investment trust and offering returns of up to 24 per cent. It said in a representation to SEBI in 2011 that it was purely in the real estate business and that it got money from individu-

Hope Floats

The Mamata Banerjee government approves the West Bengal Protection of Interest of Depositors in Financial Establishments Bill, 2013. But to help Saradha investors, the Bill must be implemented retroactively. State Parliamentary Affairs Minister Partha Chatterjee says the Bill will also enable the government to punish fraudsters

als to buy immovable property. In fact, it was taking deposits from investors as advances for exotic holidays or land parcels, and offering them the option to cancel the booking and get their money back with 12 to 14 per cent interest. Lured by higher returns and coaxed by agents, most investors cancelled bookings.

Many companies that run such schemes have hardly a fraction of the assets they originally promise. For example, Maharashtra-based Maitreya Services, which runs a collective investment scheme, had raised ₹1,332 crore from the public as "advances" as of March 31, 2011. It has repaid only ₹538 crore so far, prompting SEBI to ban the company and its directors Varsha Satpalkar and Janardan Parulekar from the securities market until the illegal schemes are terminated.

MPS's Manna says his group has assets of ₹4,000 crore, but surprisingly, there are no investors who claimed the assets they were eligible for in the last 13 years, although MPS has been running schemes with a 10-year maturity period.

Those out to cheat the public are extremely innovative. "People are coming out with such ridiculous schemes, like emu and goat farming," says SEBI's Sinha. "SEBI has taken note of it. We must have started prosecution and taken action against a dozen such companies. We have been writing to state governments and fighting court cases." SEBI is fighting 11 lawsuits with MPS alone in lower courts. In March, SEBI imposed a ₹1 crore fine on Rose Valley Real Estate for not providing the details it sought in a case of an allegedly illegal debenture issue.

Last year, M.S. Guru of Perundurai in Tamil Nadu was arrested after he duped 20,000 investors of about ₹500 crore, by luring them to invest ₹1.5 lakh in emu farms, promising a return of ₹3.34 lakh in two years by rearing the Australian-origin birds. In 2009, Kerala police busted a money chain run by one Sabarinath, who, along with his associates in a company 'Total 4 U', lured as many as a few thousand people to invest ₹200 crore by promising high returns. Last year, authorities auctioned nine luxury cars belonging to Sabarinath, including a BMW and a Toyota Lexus, to pay back some of the investors.

Lack of Options

Two major reasons for the growth of chit funds, legitimate or otherwise, and other dubious collective investment schemes are the lack of safe savings schemes in rural areas, and a poor regulatory framework to check fraudulent companies.

According to CPI(M) leader and former West Bengal housing minister Gautam Deb, small savings

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and post office collections in West Bengal from April to October 2012 were only ₹194 crore, against the target of ₹8,370 crore. "The state's small savings rate has fallen due to the thriving chit fund industry. But the chief minister is never heard speaking against chit fund companies," he said in December 2012.

For the country as a whole, total deposits under small savings in the Public Provident Fund (PPF), National Savings Certificates (NSCs) and post office schemes, have fallen from ₹1.65 lakh crore in November 2010 to ₹1.22 lakh crore in November 2011. This is because many small investors moved into investing in chit funds and banks that offer higher interest, and also in gold and real estate.

In September last year, Sachin Pilot, who was then Minister of State for Communications, acknowledged that post office deposits declined in 2011/12, but said the government had taken measures to stem the fall. These included raising the rate of interest on post office savings accounts from 3.5 to four per cent, reducing the maturity period for monthly income schemes and NSCs from six to five years, and raising the annual ceiling on investment in the PPF scheme from ₹70,000 to ₹1 lakh.

A SAMPLER

The Corporate Affairs Ministry and SEBI have put several companies under the scanner for operating illegal schemes. Some examples:

Rose Valley

Promoted by Gautam Kundu, a sponsor of the Kolkata Knight Riders IPL team. Kundu reportedly signed a ₹10 crore cheque when worried investors thronged his office after the Saradha scandal broke out

MPS Group

Established in 1994 and promoted by P.N. Manna. Over 13 years, parent company MPS Greenery Developers Ltd has collected ₹1,765 crore from 1.8 million investors, although it is yet to get registration certification from SEBI

ICore E-Services

Started in 2007 by Anukul Maiti, who started out selling FMCG and financial products. Diversified into cement, steel, apparel and housing finance. Maiti was vice president of football club Mohun Bagan (2008-11)

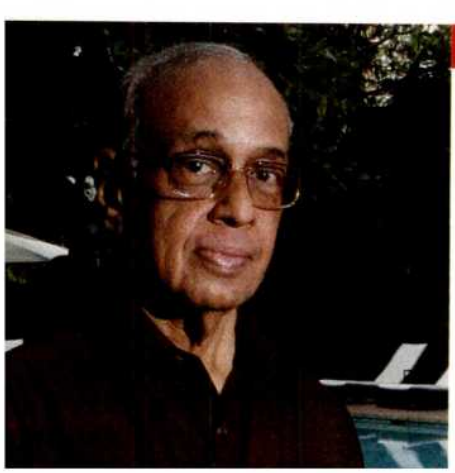
Sumangal Industries

Started in 2010 by Subrata Adhikary, "mainly for operating with Multi Level Marketing", says its website. Barred by SEBI in April from raising funds through its Flexi Potato Purchase Scheme, which promised returns of up to 100 per cent

Gaps in the Law

Another major reason for the proliferation of chit funds and fraudulent collective investment schemes is the absence of adequate regulations and, in some cases, the lack of clarity in laws. Chit funds are monitored by state governments, collective investment schemes by SEBI, and non-banking finance companies (NBFCs) by the Reserve Bank of India (RBI).

SEBI has been fighting several court cases with the promoters of questionable schemes. For instance, the MPS Group had sought SEBI's nod for a collective investment scheme in



COLUMN R. THYAGARAJAN, Founder, Shriram Group

RBI RULES ARE STIFLING NBFCs

We need a large number of financial institutions which offer safe and reasonably remunerative return on investment to protect investors' interest. At most times, our regulators actually stifle the industry and drive out good players. Look at what happened in 1998 in the aftermath of a few non-banking financial companies (NBFCs) such as CRB Capital Markets collapsing. The Reserve Bank of India (RBI) came out with a very stringent and unimaginative set of rules that almost finished off the sector. A lot of large companies such as the Tatas and

March 2000. It was denied, after which MPS began a court battle with the regulator. "We've exchanged 100 to 200 letters with SEBI," says MPS Group's Manna. "Then they asked me to get a 'comfort letter' from any nationalised bank. But no bank is authorised to give such a letter. The Calcutta High Court has said we can continue the scheme if we have the requisite approval."

Without waiting for SEBI's nod, Manna is back in the business after a brief hiatus, and says he has provisional registration from SEBI. But SEBI says an existing collective investment scheme cannot launch any new scheme or raise money from investors even under the existing scheme, unless SEBI grants it a certificate of registration.

In the case of Rose Valley, SEBI asked the company on January 3, 2011, to stop collecting money. But the Calcutta High Court restrained SEBI through an interim order.

"SEBI is trying to punch above its weight," says Sandeep Parekh, founder of Finsec Law Advisors and a former SEBI executive director. "There is a case for better co-ordination among various regulators."

SEBI, which is also fighting a fierce battle with Subrata Roy's Sahara Group over allegedly illegal means used to collect ₹24,000 crore of depositors' money, has a staff of only 500, of which just 16 employees are in its Kolkata office, making enforcement of regulations difficult. "It's time for the RBI to step in," says Parekh. "Any deposit-taking has to be only with its approval."

While the RBI has acknowledged the menace of companies operating collective investment schemes in the name of chit funds, Governor D. Subbarao has said the onus of regulating them was with state governments. Although every NBFC has to be registered with the RBI, some categories of NBFCs, such as chit funds and stock broking firms, which are regulated by authorities such as state governments or SEBI, are exempted, to avoid dual regulation. The Chit Funds Act, 1982, says no scheme can begin without obtaining approval from the state government within whose jurisdiction it is to be conducted, and unless the fund is registered in that state.

SEBI, on its part, has reportedly written to the union finance ministry to appoint a regulator to look into the operations of deposit-taking companies.

On April 30, the Mamata Banerjee government passed the West Bengal Protection of Interest of Depositors in Financial Establishments Bill, 2013, by convening the assembly's first emergency session in 50 years. The new Bill replaced the earlier West Bengal Protection of Depositors Interest Bill, 2009, introduced by the former Left Front government, which was sent to the President but did not get his assent.

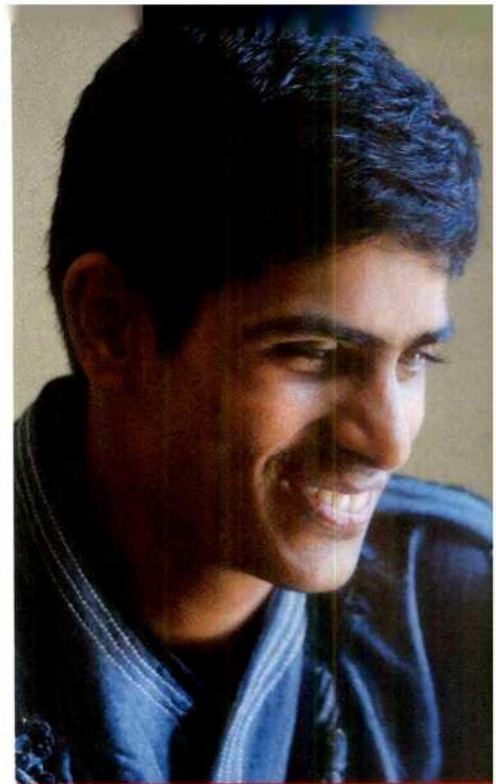
However, if the government wants to help investors affected by the Saradha scam, it needs to implement the Bill retroactively. State Parliamentary Affairs Minister Partha Chatterjee has said the Bill

others who were in the NBFC business till then chose to exit the sector.

Too much of micro management drove out good players (and continues to do so even now). Had that not happened we would have had over 50 large finance companies competing among themselves. Nature abhors a vacuum and it is this vacuum that unscrupulous players come to occupy. Financial illiteracy is high in India and we need hundreds of strong institutions. In the absence of this, more people fall prey to ponzi schemes. It is not the lack of regulation that is fostering such scams but unbridled RBI regulation.

(The Shriram Group's chit fund business, started 40 years ago, is the largest in India.)

(As told to N. Madhavan)



Manish's spirit helped him overcome the odds

Manish has been blind since birth, but that didn't stop him from pursuing a brighter future. Developing a passion for computing in college, he went on to gain computer proficiency with the help of Windows accessibility features like the Narrator. Today, an independent Manish is happy to support his family with the priceless feeling of self-respect.

Accessibility: Windows has inbuilt accessibility features such as Magnifier and Narrator that make computing easier for persons with disabilities.

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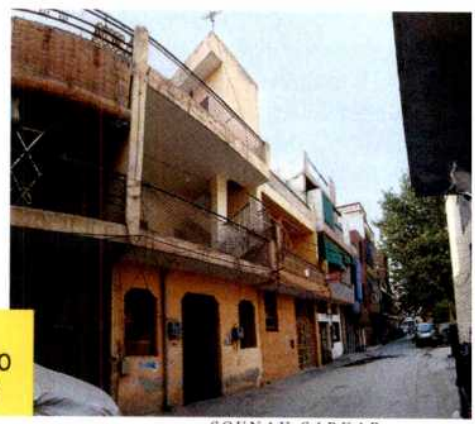
THE PHANTOMS OF FARIDABAD

How an industrial town in Haryana became a hub for chit funds operating in Kerala

It takes much effort to locate the two-storey building in a residential colony in Sector 7 of Faridabad, near Delhi. The nondescript building, with a layer of yellowish paint, is one of many in a lane cluttered with similar houses. What's different about the building? Until recently, it was the registered office or regional office of more than 130 chit funds. What's more peculiar is that all those funds operated not in the Haryana town but far away in Kerala.

With chit funds in the news recently for all the wrong reasons, the house owner is reluctant to talk. The owner, who does not wish to be named, moved to Faridabad from Kerala in 1998 to work in a factory. "We've nothing to do with chit funds. We just rented out a room in the house to these funds," he says over the phone from Thrissur, Kerala. Pressed further, he says many funds had been using his address for over seven years and held meetings in the room occasionally.

The house is one of several in Faridabad's residential areas that became a refuge for hundreds of chit funds based in Kerala after the southern state enacted the Kerala Chitties Act, 1975. The law sought to regulate savings and credit schemes and protect subscribers' interests. This led to an exodus of chit funds from Kerala to other states, especially to Jammu and Kashmir and Haryana, where similar laws had not been promulgated at the time.



The house (second from left) in Faridabad's Sector 7 where over 130 chit funds had offices until recently

SOUNAV SARKAR

Faridabad became a hub of

would also enable the government to punish fraudulent individuals and confiscate their properties.

Political Support

The West Bengal government will have a lot to explain for the direct links of some of its functionaries with dubious chit fund companies. While its Members of Parliament Kunal Ghosh, a former CEO of Saradha's media unit, and Srinjoy Bose, are facing the heat after being named in Sen's letter to the CBI, investors say the party's patronage was clear from the start. Displaying a file agents used to lure investors, Chakraborty points to a photograph of Chief Minister Banerjee flagging off a Saradha Group's ambulance service, and another brochure with Ghosh's picture. "How would we not believe that Banerjee was endorsing the activities of Saradha after seeing all these?" he asks. He also holds up a placard with state Transport Minister Madan Mitra's name on it, saying he took it away from Saradha's office. "How can Mitra claim he is not associated with Saradha? I have proof."

Sen's political clout was complemented by his media business. He launched several publications and owned TV channels that ran his companies' advertisements. All these businesses have now shut shop.

By the time our team finished the interviews in Barasat, at least 25 people had assembled at Chakraborty's home, all of them

CHIT FUND

WHAT ARE CHIT FUNDS?

A chit fund has a predetermined value and duration. It admits a specific number of people who put a sum of money regularly into the 'pot'. The 'pot' is auctioned every month to the highest bidder. Chit funds are regulated by state governments

Kerala-based chit funds as it already had a lot of Keralites, making it easier for the funds to set up their offices. A.V. Philip, General Secretary of the Faridabad Malayalee Association, which was set up in 1970, says people in large numbers from Kerala started migrating to Faridabad in the 1970s. "It was the number one industrial town in the country. Today, there are more than 60,000 Malayalees in Faridabad," he says.

While the funds set up their offices in Faridabad, they continued to conduct their transactions in Kerala, says David Kannanaikkal, General Secretary, All Kerala Chitty Foremen Association. "This primarily is the case with small and medium-sized chit funds," he adds. The association estimates the chit fund business in Kerala to be around ₹85,000 crore. There is no estimate of the number of Kerala-based chit funds with offices in Faridabad. But according to the association, at last count in 2002, there were about 10,000 chit funds operating in Kerala with offices outside the state.

Anil Kumar, Chairman of Thrissur-based Pooram Kuries, says the chit fund started operations in Faridabad in 1995. "Our main subscribers are in Kerala." He adds the town's local residents do not invest in Kerala-based funds.

Many locals are not even aware of these funds. Sanjay Kumar, Joint Commissioner of Police, Faridabad, says some unregistered local funds may have been operating in the town but the police haven't got any complaints about Kerala-based funds using a Faridabad address.

These chit funds received a setback last year when the Chit Fund Act of 1982 was extended to six states including Haryana, Kerala and Gujarat. Many funds are weighing their options. The owner of the Sector 7 house has returned to Kerala and says 90 per cent of the funds operating from his residence have moved out. "I want to sell this property and to have nothing to do with chit funds," he adds.

BY SARIKA MALHOTRA
ADDITIONAL REPORTING BY
DEARTON THOMAS HECTOR

OR NOT?

WHY SARADHA WAS NOT A CHIT FUND

What Chairman Sudipta Sen conceived of was not a chit fund. Saradha agents lured investors to put in money over 12 to 60 months and promised returns up to 50% a year. At maturity, they could get land or a flat, or money

tense and unsure of their future. "I had put all my life's savings into this, and now everything's vanished," says a weeping Dipali Pal, 38, who deposited about ₹2 lakh of her provident fund money after she quit her job at Eastern Silk Industries. Mitali Chakraborty, Pradip's wife, said she joined in the name of her son, as it was expected to bring her good luck. But luck seems to have evaded these hapless villagers, at least for now. They have to find solace in the beatific smile of Sarada Maa, who looks out at them from the picture on the wall. ◆

The author is Deputy Editor, India Today

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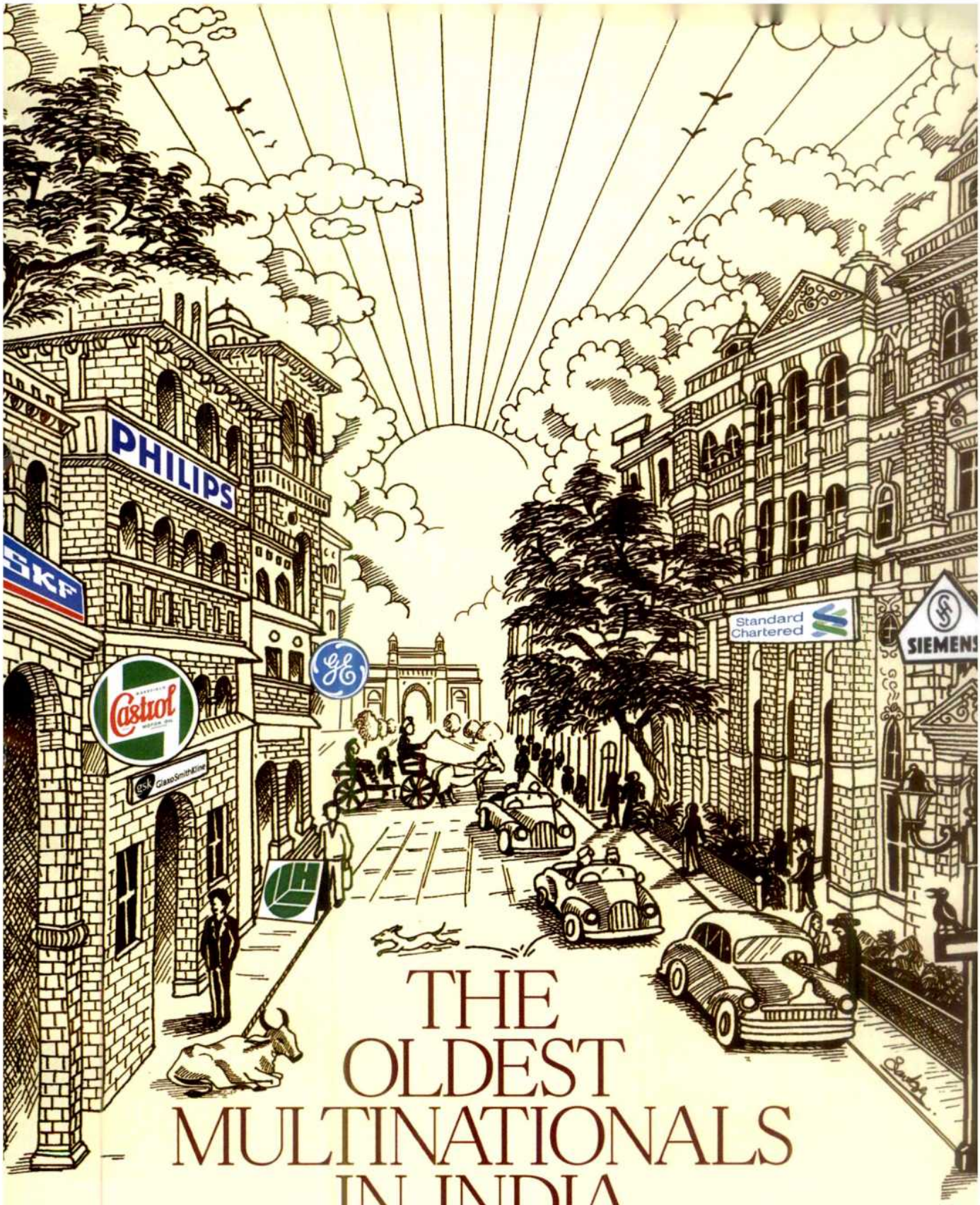


THE OLDEST MULTINATIONALS IN INDIA

Why they came and how they succeeded

Curated by Anand Adhikari

HUL	Castrol	Siemens	Standard Chartered	GlaxoSmithKline	SKF	GE India	Phillips India
1933	1910	1922	1856	1919	1923	1902	1930

STAYING

A handful of multinationals is scripting success in India against odds

They have been in business for more than 75 years in India – and are still going strong. India's oldest multinationals have not only survived the ups and downs of the country's history, but have also thrived despite all odds. Starting out under British rule, these companies have their histories closely linked to the nation's economic trials and tribulations, both before and after Independence. They have gone from the highs of industrialisation and liberalisation to the lows of the recent downturn – and always come out on top.

Our special package, "The Oldest Multinationals in India", celebrates the journeys of some of the top global companies in India. *Business Today* chronicles the stories of eight companies (See Pages 62 to 98) through some of the turning points in their corporate lives.

How did we choose these eight? Seventy-five years in India was the primary cutoff. From that list, we chose companies across sectors – to get a better spread – that were either the oldest or among the market leaders. For sectors like banking, where regulatory restrictions hobbled scale, we did a peer comparison with other MNCs and chose either the oldest or the best performer. The chosen companies represent the very best of global business in India.

SELECT FEW

Leading MNCs which have been in India for more than 75 years

GOODYEAR
1822

STANCHART
1858

HSBC
1860

BNP PARIBAS
1860

SIEMENS
1867

HUL
1888

CITIBANK
1902

GE
1902

CASTROL
1910

Today, these companies are not only deeply etched in the collective Indian consciousness, but have also become a critical part of the fortunes of their global parents. "The long stay of MNCs is ample proof of companies improvising their products, strategies and processes according to the local culture, demands and economic environment," says Richard Rekhy, CEO, KPMG India.

Their stories reflect their grit and determination to stay in the country even when the odds were stacked against them. Lubricants manufacturer Castrol India, for example, was not allowed to have more than six per cent market share when the regulatory environment went against it in the 1970s. But it

POWER

stayed on and today is one of the largest players in the business. Similarly, not many know that Standard Chartered Bank once had a majority stake in Allahabad Bank, which it lost to nationalisation. But that did not deter it from riding the liberalisation wave and achieving a leadership position in mergers and acquisitions. "Constant rejuvenation, re-launch of products and making brands relevant to the new demographics are the order of the day," says Rekhy. Their success is a reflection of the robustness of their systems and good corporate governance.

The future of these multinationals looks even brighter as India globalises and integrates with the rest of the world. Existing global companies in India have a head-start as the government liberalises foreign investment rules and new multinationals set up base in India.

The success of these multinationals is a reflection of the robustness of their systems and good corporate governance. Their long journey in India also has lessons for Indian industrialists such as the Tatas, Birlas and Mahindras, who are acquiring multinationals and expanding overseas. "The lessons are the ability to adapt to different markets, policies and regulations, different cultures and ways of doing business," says Jaspal Bindra, Group Executive Director & CEO, Asia at Standard Chartered Plc. ◆

ANAND ADHIKARI

MNCs	Year Of Entry
RECKITT BENCKISER	1911
NESTLE	1912
GLAXO SMITHLINE	1919
INGERSOLL RAND	1922
SKF	1923
PHILIPS ELECTRONICS	1930
BATA	1931
ALFA LAVAL	1937
COLGATE-PALMOLIVE	1937

Hindustan Unilever

Shifting Levers with Time

India's largest consumer goods company has been closely linked with the ups and downs of the country's history

By AJITA SHASHIDHAR

When English industrialist William Hesketh Lever launched the iconic laundry soap, Sunlight, in 1884, the idea wasn't just to popularise a sense of hygiene in Victorian England. The founder of soap manufacturer Lever Brothers said he also wanted to relieve the women of England from the monotony of washing clothes. Lever believed an enterprise could be successful only if it was sensitive to the needs of members of society. "To make cleanliness a commonplace; to lessen work for women; to foster health and contribute to personal attractiveness, that life may be more enjoyable and rewarding for the people who use our products" was the intention behind introducing Sunlight, he said.

It was a mission statement that soon spread beyond English shores. Within four years of the launch of Sunlight in England, a large container with crates of soap bars embossed with the words "Made in England by Lever Brothers" hit the shores of Kolkata harbour. Sunlight was followed by other iconic soap brands such as Lifebuoy, Pears and Vim. "W.H. Lever could foresee a consumer market in India, when it hardly existed," says Nitin Paranjpe, CEO of the ₹26,000-crore Hindustan Unilever Ltd (HUL), the Indian unit with roots to the enterprise Lever started.

William Lever

But the Indian market hasn't been easy. HUL's journey here has been closely tied with the ups and downs of the country's history. For example, soap sales suddenly plummeted in 1930 when the Swadeshi movement was at its peak and Indians were boycotting imported goods to protest against colonial rule. One option was for Unilever to stop doing business in India. But the company dismissed the idea and instead decided to start manufacturing in the country. The first soap factory of

1888
Lever Brothers introduces Sunlight soap in India

1930
Unilever is formed on January 1 through the merger of Lever Brothers and Margarine Unie

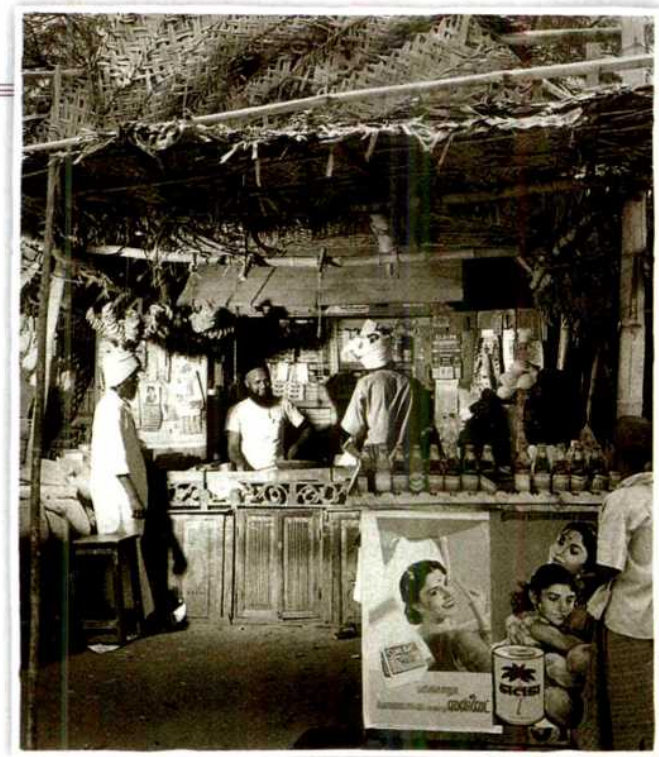
1933
Lever Brothers India Limited is incorporated in October

For video interview with CEOs, slide shows and more, go to
www.businesstoday.in/oldmnc-hul

HUL is the largest FMCG company in India

Headquarters	:UK
Sales	:$75bn
Net Profit	:$7.5bn

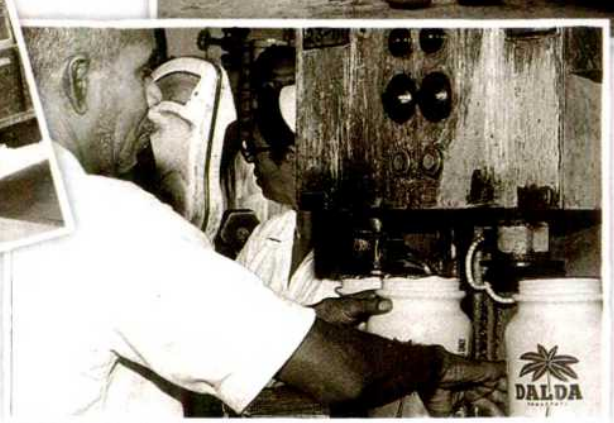
Source : Annual Report 2012
USD Currency conversion @current rate



An old kirana store with a Dalda ad. HUL has millions of retail outlets across the country

Lipton Tea crates being carted on elephants. Distribution methods have come a long way since then

Goods being moved out of the Mumbai factory

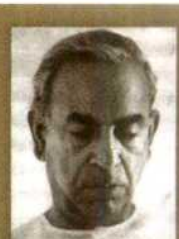


An old Dalda packaging unit. The iconic product was a popular cooking medium for decades

1934
The first Lever Brothers soap factory is set up in Sewri

1959
Surf launched

1961
Prakash Tandon takes over as the first Indian Chairman; 191 of 205 managers are Indian



1982
Unlike other MNCs, Unilever allowed to retain 51% stake

1996
HUL and Indian cosmetics major Lakme Ltd form 50:50 JV, Lakme Lever Ltd

2007
Company name changes to Hindustan Unilever Ltd after receiving shareholder approval

A Pears ad. The soap was a huge hit with children across the country

Lever Brothers was set up in Sewri in Mumbai in May, 1934 after Lever Brothers India Ltd was incorporated in October, 1933. "We would gravely be at fault did we not have the courage to adjust our policy to new conditions, and the confidence in our ability to do so," said Andrew Knox of the Overseas Committee, Unilever, in London in 1931.

Today, HUL is the biggest consumer goods company in India with a massive portfolio extending all the way from toothpaste to tea. Its products are found in millions of retail outlets across the country. But that's a long way from the time it first set up shop in the country. For years, it was mostly synonymous with selling hydrogenated vegetable oil under the brand name, Dalda, in the iconic green and yellow packaging. In 1930, Lever Brothers acquired a Dutch company, Margarine Unie, the makers of Dalda, in England. By then, Margarine Unie was already exporting Dalda to India. Its Indian entity was called Hindustan Vanaspati Manufacturing Company. Hindustan Vanaspati Manufacturing Company and Hindustan Trading Unit continued in India as separate units of Lever Brothers. All these entities were merged under the Hindustan Lever Ltd umbrella in 1956. In 2007, the company changed its name to Hindustan Unilever.

An old Sunlight ad. The soap was introduced to make washing clothes simpler for women

Paranjpe says one of the biggest turning points in the history of HUL was the price control policy in 1973. The government had imposed price controls on several manufactured products, including soap and vanaspati, in an effort to curb inflation. As a result, the company had no choice but to sell its products below cost price, which led to massive losses for the first time. In order to combat price regulation, the then Chairman of the company, T. Thomas, decided to introduce a common man's soap, named *Janata*, to persuade the government to lift price curbs on all soaps.

The strategy paid off and the government scrapped the controls. Thomas wrote in a document to mark 75 years of the company that if price control had continued for some more time, the company would have suffered mounting losses and Unilever would have considered ways of pulling out of India as it had done in some African countries. "During the price control regime we had a choice of walking away, but we decided to engage with the government. If you are committed to the long-term, you will have resolve and resilience," says Paranjpe.

The next big challenge for HUL was the government's drive in the 1970s, when many multinational companies were asked to divest their majority stake in India. Some, such as Coca-Cola Company and Shell Petroleum, walked out. But HUL decided to tread the more

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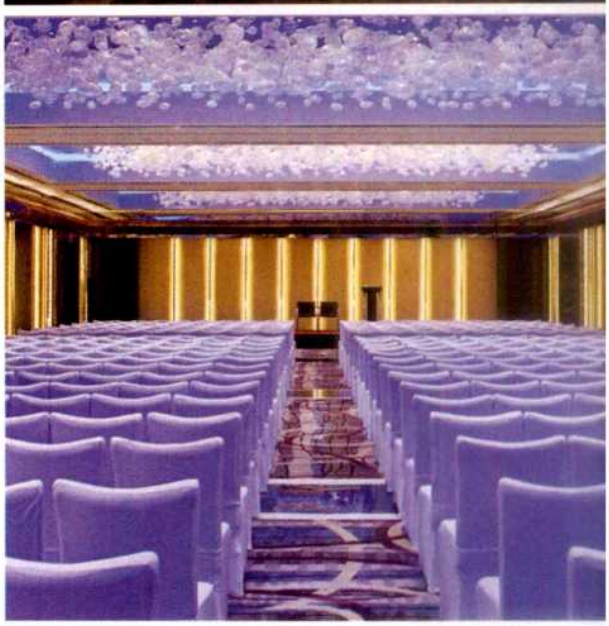

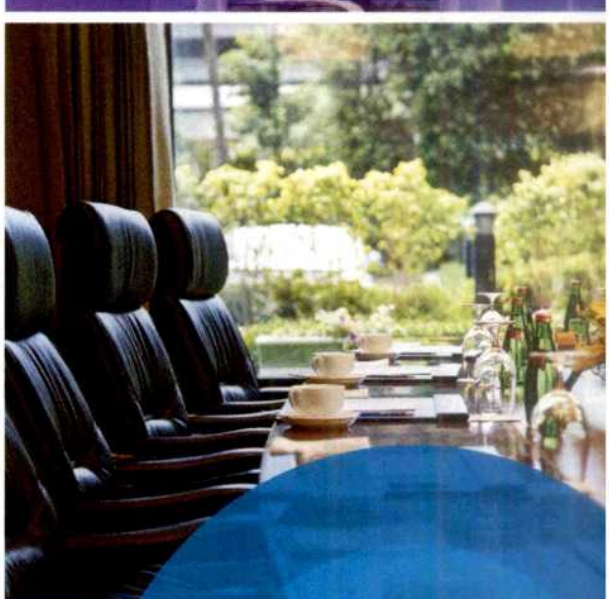

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difficult path of working with the government. It convinced the government to allow it to retain its 51 per cent stake in the company by promising it would ensure that 60 per cent of its turnover would come from investments in the core sector and 10 per cent of its export would constitute items from the priority sector, such as agricultural products. "We exported products such as seeds, fertiliser, animal feed etc which were not our core areas," says Paranjpe. "We got into these businesses as they were relevant to the India of that time."

The biggest watershed for HUL was the liberalisation of the Indian economy. The scrapping of regulatory frameworks allowed the company to expand into new areas through mergers and acquisitions. In 1993, Tata Oil Mills Company (TOMCO) merged with HUL in one of the most high-profile events in India's corporate history. Paranjpe admits the shift towards catering to the aspirations of the new Indian has not been easy. The company's over 10 per cent dip in profits in 2009 was a wakeup call. "We realised that we needed to keep innovating and evolving in a more discontinuous way. We had to think keeping the consumer at the centre and evolve as per his or her needs."

> "India has evolved and the aspirations of the people have changed. India is part of a globally connected world and we also had to change"
> Nitin Paranjpe, CEO, HUL

After the government threw open India's economic doors in the early 1990s, HUL gave its product portfolio a contemprary touch and launched new brands. In 2011 alone, it launched 30 new brands. A product like Ponds, for instance, which for decades was a super-market cold cream brand, was given a face-lift with high end age-block products such as Ponds Age Miracle priced at ₹2,500. "India has evolved and the aspirations of the people have changed. India is part of a globally connected world, and we also had to change," says Paranjpe.

The company noticed while urban India was becoming global and was happy to spend on premium products, aspiration levels of rural India had also changed. "A consumer in smaller markets wants to use a shampoo and a conditioner as much as the urban consumer wants to," says Paranjpe. He says he was surprised to see a bottle of Comfort fabric conditioner in a house in a small Andhra Pradesh town.

Robust growth in personal care and food products prompted the parent company, Unilever Plc, to offer $5.4 billion at the end of April to increase its stake in the Indian subsidiary to 75 per cent from 52.28 per cent. It is the global company's biggest deal in more than 10 years and the largest single investment in the Indian consumer goods sector. So, where does Paranjpe see HUL five years from now? "I am trying to develop a business model which focuses on sustainability. I want to decouple it from resource use and re-couple it with societal growth."

Though times have changed, 129 years later, Paranjpe's strategy still echoes the philosophy of the founder, W.H. Lever. ◆

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For earlier stories on HUL, go to
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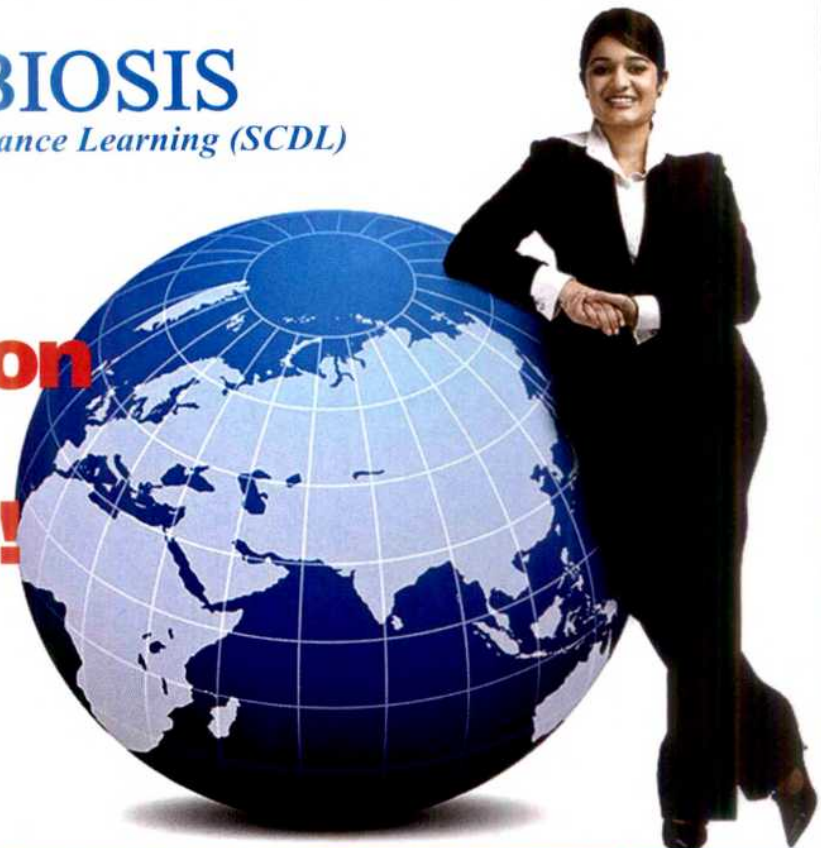

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Castrol India

Sticking to India

Lubricants manufacturer Castrol stayed put in this country despite the unfriendly business environment which scared away many others.

By AJITA SHASHIDHAR

The Maharaja of Patiala imported the first car to enter India, in 1892. It was a French-made Di Deon Bouton, powered by a steam engine.

Around the same time in England, Charles Cheers Wakefield, then an employee of Vacuum Oil (which went on to become Mobil), was planning the launch of his own automotive lubricant company. In 1899, Wakefield called it a day at Vacuum Oil, rented three small rooms on the third floor of 27th Canon Street in Central London and launched C.C. Wakefield & Co. In 1909, Wakefield registered his lubricant under the brand name Castrol – the name derived from its original base component, castor oil.

Within a year, in 1910, Wakefield decided to launch his first offshore operation in India. In those days, all of India had just about 1,000-odd cars. Why did Wakefield choose a market like India for his first overseas venture? "About 100 years ago, nobody would have believed that India could become one of the largest automobile markets, but C.C. Wakefield had that foresight," says Ravi Kirpalani, Managing Director, Castrol India.

Charles Wakefield

Attempting tasks where the chances of success are improbable, says Kirpalani, was always in the DNA of Castrol India. "The first improbable achievement was creating an emotional connect with a lubricant brand, but we managed to do it," he says. Indeed, Castrol is synonymous with lubricants in India. It has a 25 per cent share of the ₹12,000-crore lubricant industry, and is well ahead of multinational (MNC) rivals such as Mobil and Shell, who have less than five per cent share each. About 50 per cent of the

1910
C.C. Wakefield's automobile lubricants introduced in the Indian market

1919
C.C. Wakefield sets up branch office in Bombay, its first overseas branch

1960
C.C. Wakefield changes its name to Castrol Ltd. Indian branch's name changes accordingly

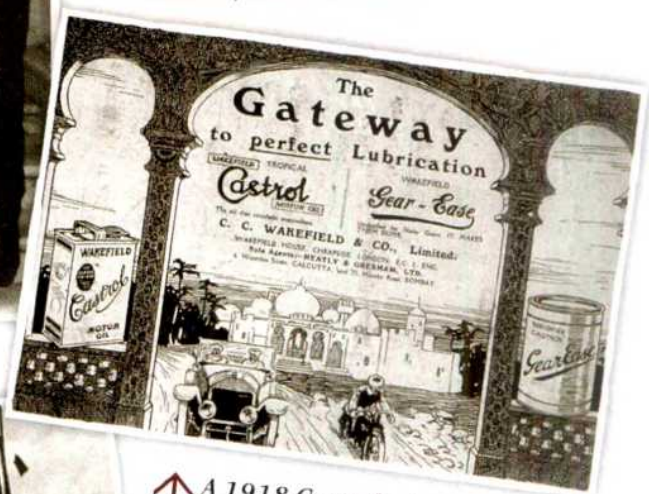
For video interview with CEOs, slide shows and more, go to
www.businesstoday.in/oldmnc-castrol

The first Castrol India team outside the then Secunderabad depot

Castrol is the second-largest player in the Indian lubricant industry

Headquarters	:UK
Sales	:$368bn
Net Profit	:$11.37bn

Source : Annual Report 2012
USD Currency conversion @current rate



A 1918 Castrol ad, a year before C.C. Wakefield & Co. set up its first overseas office in India

A Castrol team at one of the early motorsport events in India

Castrol ad appeared on the first BEST bus that ran in Mumbai in 1926

Changing gear to put BEST fleet forward

1913

The first motor bus ran in Bombay in 1926. In its 77-year history, the city bus service has changed avatars keeping pace with the times and its needs. Here is the track the fleet trudged to modernise itself in order to retain its indispensability. However, it continues to transform — from the better to the BEST...

1926

SCORING over the train, the first motor bus in the city ran between Colaba and Crawford Market on July 15, 1926.

Taxi drivers and victoria riders, perceiving this 10-minute maiden run as a looming threat to their business, hastened a petition to the standing committee of the Bombay Municipal Corporation demanding withdrawal of the new service. The petition was rejected.

Five days later, a city newspaper pronounced the service successful. Since that day, the BEST undertaking has come a long way.

1961
Starts manufacturing operations in India, at blending plant in Wadala, Mumbai

1966
Burmah Oil acquires Castrol globally

1979
Indian branch incorporated with a new name, Indrol Lubricants & Specialities Pvt Ltd

1983
Indrol becomes a public limited company, with Castrol UK holding 40 per cent equity

1990
Indrol Lubricants changes its name to Castrol India Ltd

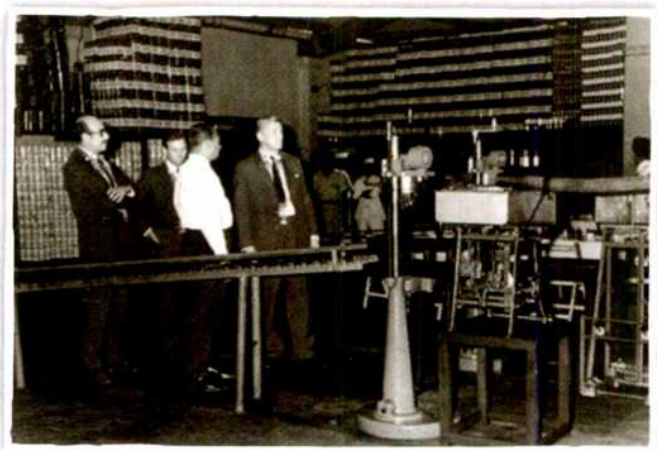
2000
BP takes over Burmah Castrol. Castrol India becomes part of the BP Group

market is with the PSU oil companies.

Reaching out

The need to build an emotional connect with consumers became all the more crucial for Castrol when the regulatory environment went against it in the 1970s. The government made it mandatory for all foreign companies to dilute their majority stake in Indian units. Castrol had to reduce its stake in its Indian operations to 40 per cent and also re-brand itself under a new name, Indrol. Mobil and Shell, Castrol's competitors, decided to fold up their Indian operations. "We were not allowed to have more than six per cent market share, and this was the time many MNCs closed shop in India and left, but we decided to stay put. This unbroken run of 100 years has got us the success," says Kirpalani.

The new guidelines also prevented Castrol lubricants from being sold at traditional retail points – the fuel stations which were owned by the national oil companies. "Since consumers couldn't come to us, we went to where the consumers were," says S.M. Datta, Independent Chairman of Castrol India. Datta is referring to the company's bazaar trade strategy, where it partnered with car and bike workshops across the country to sell its lubricants. Today, there are over 6,000 Castrol-branded bike workshops and 1,000 car workshops in India.



Castrol plant at Magazine Street in Mumbai in the early seventies

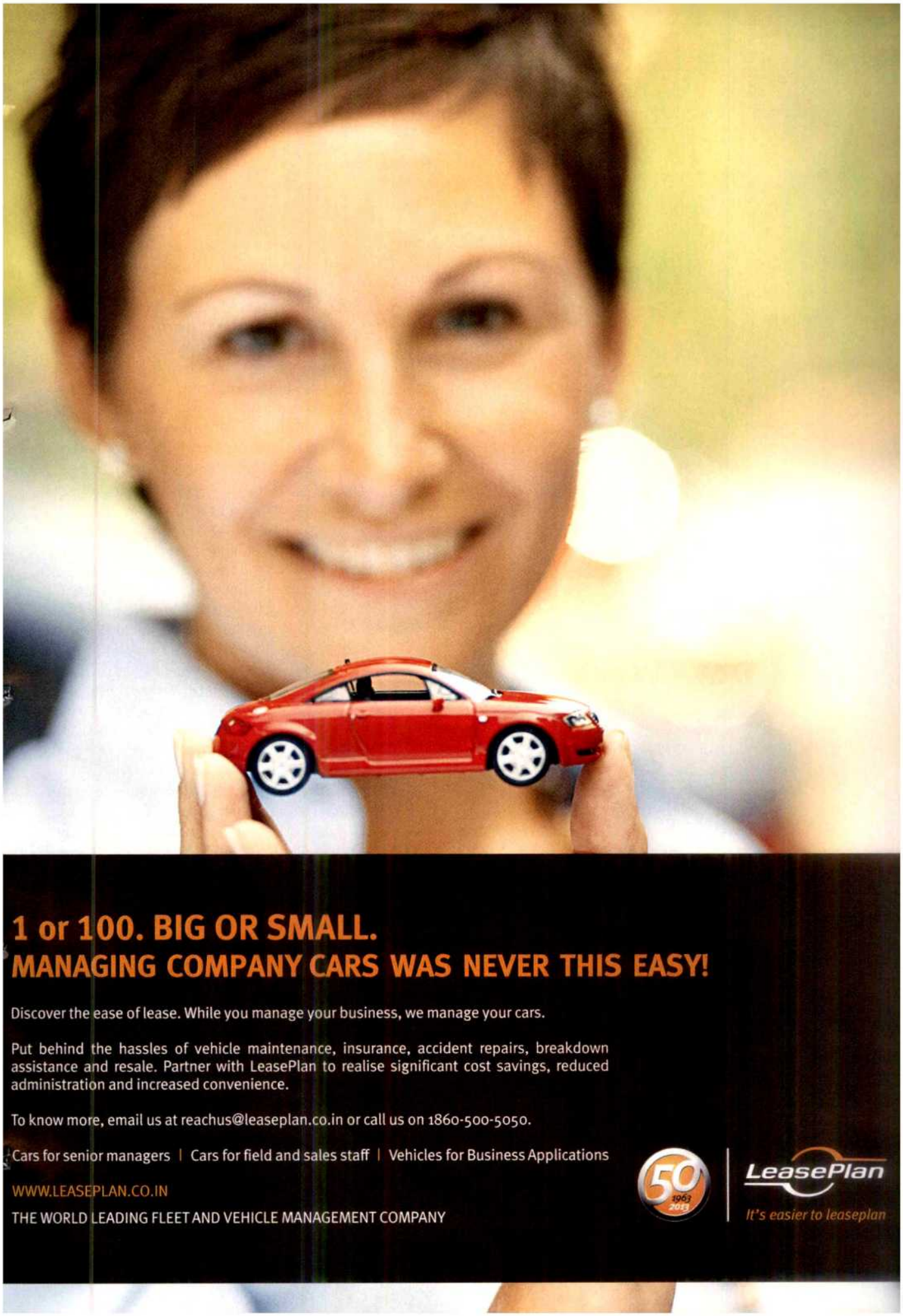
Identifying new retail windows was accompanied by the launch of new products as well, such as Castrol GTX, which enabled a vehicle to run for 10,000 km without changing the lubricant, and Super TT, a lubricant for two-wheelers. "Our products were priced at a 60 to 70 per cent premium compared with the competition, but the demand was tremendous as the brand equity was already built," says Ram Savoor, former Chairman of Castrol India.

Selling in Sachets

The company also used a tactic popular in fast moving consumer goods sector, that of selling in economically priced sachets. It launched 40 ml sachets of Super TT. "Consumers would buy sachets in bulk and keep them in their scooters and bikes, and at fuel stations they would use their sachets instead of buying a lubricant available there. This strategy was a huge hit," says Kirpalani.

During this time, the company also spent large amounts on advertising and consumer connect programmes. "This enabled us to build the emotional connect with the consumers, which helped us immensely when the market opened up," says Kirpalani.

For earlier stories on Castrol, go to
www.businesstoday.in/oldmnc-cipla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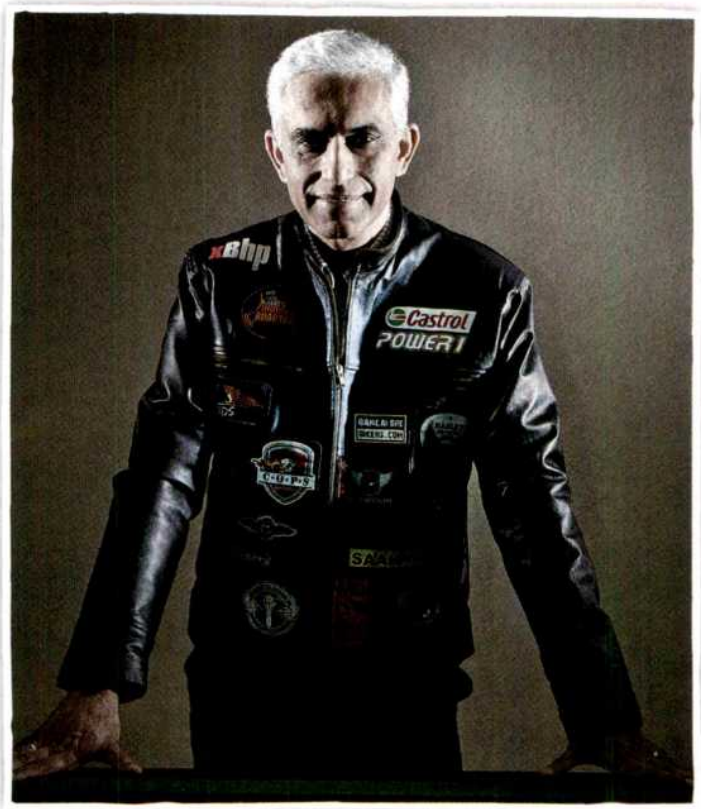

NISHIKANT GAMRE/www.indiatodayimages.com

In 1983 Castrol listed on the Bombay Stock Exchange as Indrol India. The company was able to revert to its original brand identity, Castrol, only in 1991, after the liberalisation process began in India. MNCs were once again allowed majority stake in their Indian businesses. In 1992, the parent company increased its stake to 51 per cent. "A higher involvement of the parent company was crucial, as we were not getting the full benefit of their global research and development actvities," says Savoor, the then chairman.

It was also in 1992 that the government opened up the market and Castrol was allowed to compete with the national oil companies and other MNCs, such as Mobil and Shell, which relaunched their India operations. Staying put in India in difficult times gave Castrol a clear advantage over its other MNC competitors.

With the changing market dynamics, Castrol's thrust on expanding reach has also paid dividends. "We focused on stepping up rural distribution," says Kirpalani. The company today has as many as 125,000 outlets in the rural markets. It also invested in R&D in India and launched specialised products in the country. India became the R&D hub for the Asian two-wheeler market.

> "We were not allowed to have more than six per cent market share, and this was the time most MNCs closed shop and went back, but we decided to stay put"
> Ravi Kirpalani, Managing Director, Castrol India Ltd

The founder of Castrol, C.C. Wakefield, firmly believed in building his business through partnerships and had partnered with motor and aviation companies to develop high quality lubricants. Over the years, Castrol has partnered with most of the global auto giants, such as BMW and Jaguar, to develop lubricants that specifically catered to their engines.

Castrol has carried on Wakefield's legacy in India too. Its first partnership was with Mumbai's BEST buses way back in 1919. More recently, the company has partnered with Tata Motors to develop a specialised lubricant for the Nano. It had also joined hands with Maruti in the 1990s.

During its over 140-year history, ownership of Castrol has changed twice. It was first bought by Burmah Oil Company in 1966. In 2000, Castrol came into the BP Group's fold.

Challenging times

The downturn in the Indian automobile industry has also hurt Castrol. The ₹3,593-crore company has seen a drop in profit after tax, from ₹490 crore in 2010 to ₹447 crore in 2012. Kirpalani attributes the fall to the drop in auto sales as well as increase in crude oil prices, the raw material for the company. "The average cost of a barrel of oil in 2011 was $110, the highest in recent memory. We were hit by a ₹440 crore input cost rise. In 2012, we were hit by the devaluation of the rupee by 20 per cent, which resulted in a hit of ₹180 crore," he says.

Despite the immediate challenges, Kirpalani remains bullish on the Indian market in the mid to long term. "In the next five years India is likely to sell 50 million cars and bikes. That's incentive enough to invest more in the business and come up with cutting-edge products," he says. ◆

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Siemens

Built to Last

Nearly a century-and-a-half after constructing the London-Calcutta telegraph line, the German engineering giant is still going strong in India.

By MAHESH NAYAK

"Shout it from the rooftops... one minute to Teheran and 28 minutes to Calcutta," wrote Werner von Siemens to his brother Carl on April 12, 1870. Von Siemens was ecstatic after his eponymous company successfully sent a telegram from London to Calcutta, now Kolkata, for the first time in history through an 11,000-km long telegraph line it had constructed. That line cut the time required to send messages from Britain's capital to the empire's India headquarters down from 30 days to 28 minutes.

That line also laid the foundation of Siemens AG's association with India, which continues till date. Siemens is now one of the biggest engineering companies in the country with annual revenue close to ₹13,000 crore. The India unit is also the fourth-largest contributor to the global revenue of Europe's biggest engineering company – after Germany, the United States and China.

Werner von Siemens

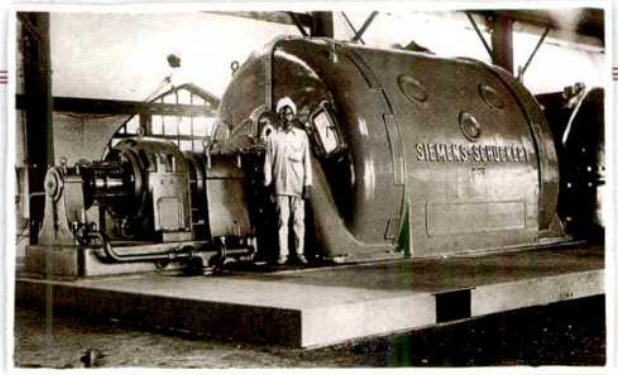
But the company's progress in India has been in sporadic bursts. It founded its India unit in 1922, but it was only after the country achieved independence from British rule that it started expanding. Encouraged by the industry-friendly policies of India's first Prime Minister, Jawaharlal Nehru, Siemens set up its first manufacturing operation in Mumbai in 1955. It started with a group of two dozen workers operating in a tiny workshop under the Mahalaxmi bridge. A year later, it began its first full-fledged factory at nearby Worli, making switchboards by using imported components and a few basic machines such as a drilling machine and a power saw. Over the next few years it started making health-care equipment and railway signaling gear, too.

In 1966, Siemens set up a factory at Kalwa in Thane to make motors. Bhaskar

1867
Siemens sets up the first direct telegraph line connecting Calcutta and London

1922
Siemens India founded

1959
Starts making medical equipment, apart from telegraph-related products



Siemens supplied a turbogenerator to Tata Iron & Steel Co in 1910

For slide shows and more, go to
www.businesstoday.in/oldmnc-siemens

India is the fourth-largest contributor to Siemens AG's global revenue

Headquarters	:Germany
Revenue	:$102.7bn
Net income	:$6.02bn

Source : Annual Report 2012
USD Currency conversion @current rate

Bernhard Plettner (third from right), then President and CEO of Siemens AG, visiting the Kalwa factory in November 1972

Siemens employees at its Kalwa plant in 1967. The company now employs nearly 20,000 people

Siemens's Express Delivery service where mechanics on cycles went around repairing electrical equipment in the late 1960s

1966
Begins production of electric motors

1987
Starts making electronic equipment

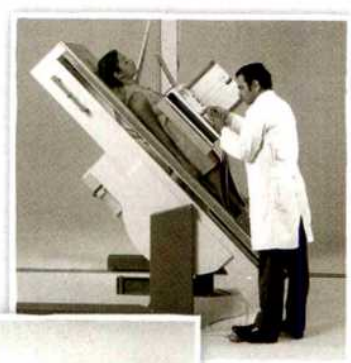
2004
Sets up a corporate technology centre

2009
Launches its SMART strategy to make relatively cheap products in India

2011
Sets up division for infrastructure and urban projects; also starts a financial services unit

Mandal, Executive Vice President in charge of the industry division at Siemens South Asia, says that until the early years of this century the place was so deserted no employee would stay on after six in the evening. "You would see snakes crawling in the campus and the roads were empty," he says. "No more than 10 cars would be seen parked in the campus. Today, people struggle to find parking."

Foreign companies operating in India faced difficult times in 1977 when the Janata Party came to power. The government wanted them to dilute their stake in their Indian units and form joint ventures with Indian companies as part of an effort to boost indigenous industry. The controversial policy led to the exit of US companies IBM and Coca-Cola. But Siemens stayed back as it was working in the core sector, says Tilak Raj Seth, Executive Vice President in charge of the infrastructure division at Siemens South Asia. In fact, during the 1960s and 1970s almost half the power plants and factories in the country were importing technology and products from the German company.



Ergoskop M, a locally made X-ray system, in 1976

Electric motors being made at Kalwa plant

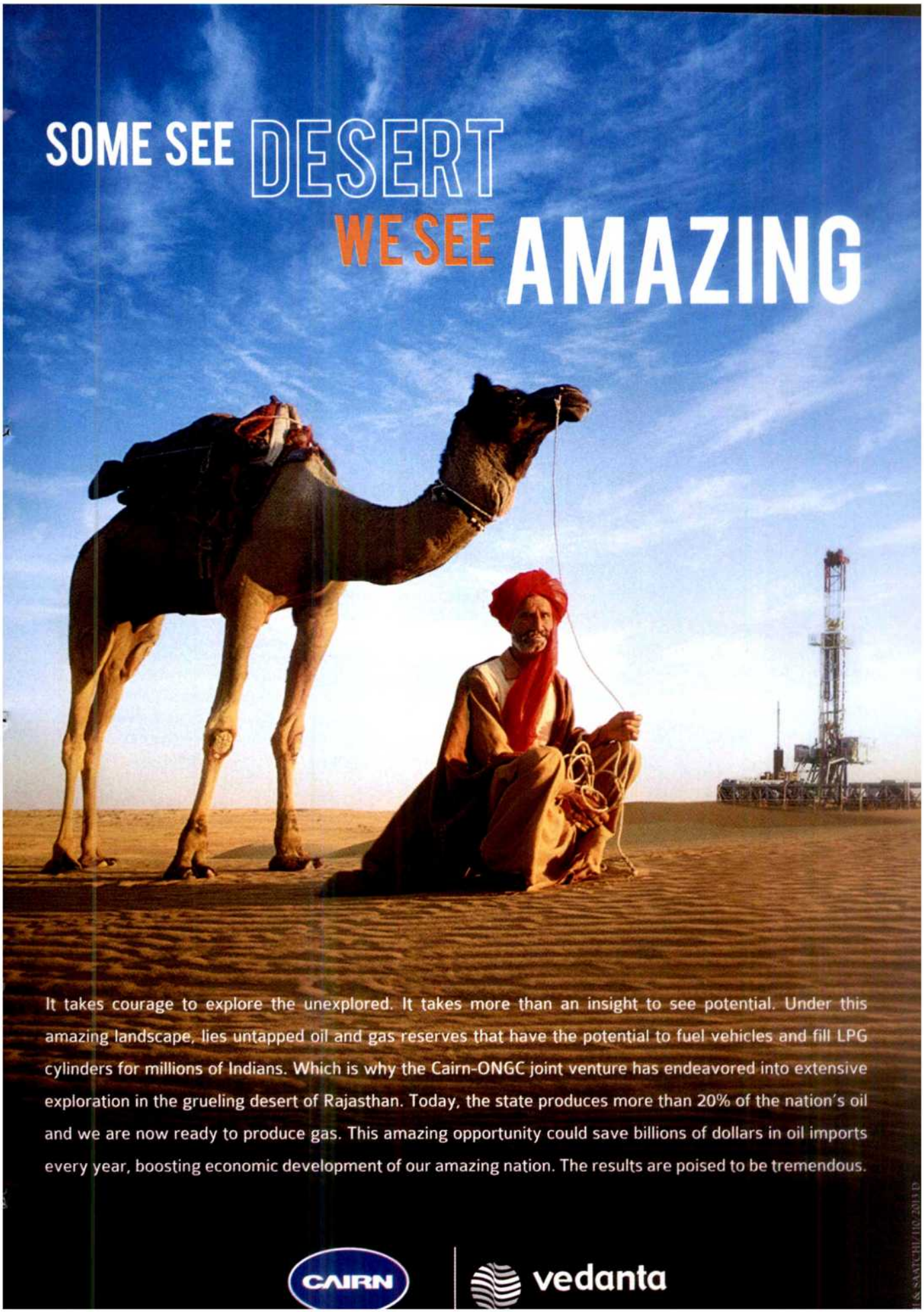
Though it had set up a few factories, Siemens India used to import the majority of its products from Germany until the 1990s. "It was the classical old trading model for Siemens," says Sunil Mathur, Executive Director and Chief Financial Officer at the India unit. This began to change after India opened up its economy in 1991.

The India entry of European engineering companies ABB and Schneider intensified competition. Was Siemens prepared for the sudden change? "It was a double-edged sword," says Seth. "In some areas we were kings and in some areas we had no presence."

By the mid-1990s, Siemens India had doubled the number of its divisions to eight as it shifted its strategy from importing products to local manufacturing. "The design and products were from the parent but the products were stripped down to see how much we could make or source domestically," says Mathur.

But rapid expansion took its toll. In 1996/97, its diamond jubilee year in India, Siemens posted a loss of ₹84.5 crore. Seven of the eight divisions were in the red, recalls Ranjit Dalvi, Executive Vice President in charge of strategy for Siemens in India. "We were going overboard on growth and were not able to manage costs. Before it could go out of control we applied the brakes," says Dalvi, who has been with the company for 37 years.

The company took tough measures to return to profitability. It cut employee strength to 4,000 from 8,500. "We turned the company around in 18 months," adds Dalvi. For the next few years, Siemens oper-


SOME SEE DESERT
WE SEE AMAZING
It takes courage to explore the unexplored. It takes more than an insight to see potential. Under this amazing landscape, lies untapped oil and gas reserves that have the potential to fuel vehicles and fill LPG cylinders for millions of Indians. Which is why the Cairn-ONGC joint venture has endeavored into extensive exploration in the grueling desert of Rajasthan. Today, the state produces more than 20% of the nation's oil and we are now ready to produce gas. This amazing opportunity could save billions of dollars in oil imports every year, boosting economic development of our amazing nation. The results are poised to be tremendous.
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ated only four factories in India.

Siemens changed tack again after it felt that Indian engineering companies such as Crompton Greaves and Thermax posed a threat. "Indian companies were below our radar till then," says Mathur. The company realised it had to design, develop and manufacture products locally to remain competitive. "Our philosophy changed. We decided to set up more factories in India," he says.

Today, Siemens has 20,000 employees at 23 factories in the country. In 2009, it launched the SMART strategy. SMART refers to simple-to-use, easy-to-maintain, affordable, reliable, and timely products.

Following the economic slowdown that has engulfed the world since 2008, Siemens in India also started a financial services division to help customers purchase its goods. In 2011, it created a division to focus on infrastructure projects and urban demand. Until then, the company operated in energy, industry and health-care segments.

"Two-three things changed dramatically in the company, not only for Siemens in India, but Siemens globally," says Armin Bruck, Managing Director and CEO at Siemens Ltd, the local unit. "One of them is making Siemens India an employee-centric organisation, while earlier it was customer-centric," says Bruck. This has helped the company curb attrition to about four-five per cent currently from 12-13 per cent in 2007. "Siemens India is among the best across Siemens in terms of employee satisfaction, an indication that we are on the right track. If we have highly motivated, highly qualified and highly engaged people, it will automatically help in optimisation of profit, products and customers," he adds.

> "I am not paid to be the most popular guy. I am paid to run a sustainable and profitable company"
>
> Armin Bruck, MD and CEO, Siemens Ltd

The second change is India's growing importance in Siemens globally. The India unit makes up 2.5 per cent of the company's global revenue. Bruck says Siemens India can also provide high-quality, low-cost products to the world. Already, overseas business contributes about 15 per cent on average to the India arm's revenue.

The last fiscal year has been tough. In the year through September 2012, the India unit posted a 59 per cent drop in net profit to ₹343 crore. Revenue grew 7.5 per cent to ₹12,920 crore. The company is focusing on gaining market share, controlling costs, and protecting the bottom line. It recently closed its wind turbine factory even before starting operations, a decision that did not go down well with some people in the company. Bruck is unapologetic. "I am not paid to be the most popular guy. I am paid to run a sustainable and profitable company," he says.

What are the company's growth targets? "We had talked of 12 billion euro (in revenue) in our Vision 2020, but today we don't talk about the time," says Bruck. "We all have to know it's a long winter. At the end of the winter there is summer and it will come and when it comes we have to be prepared before the market." ◆

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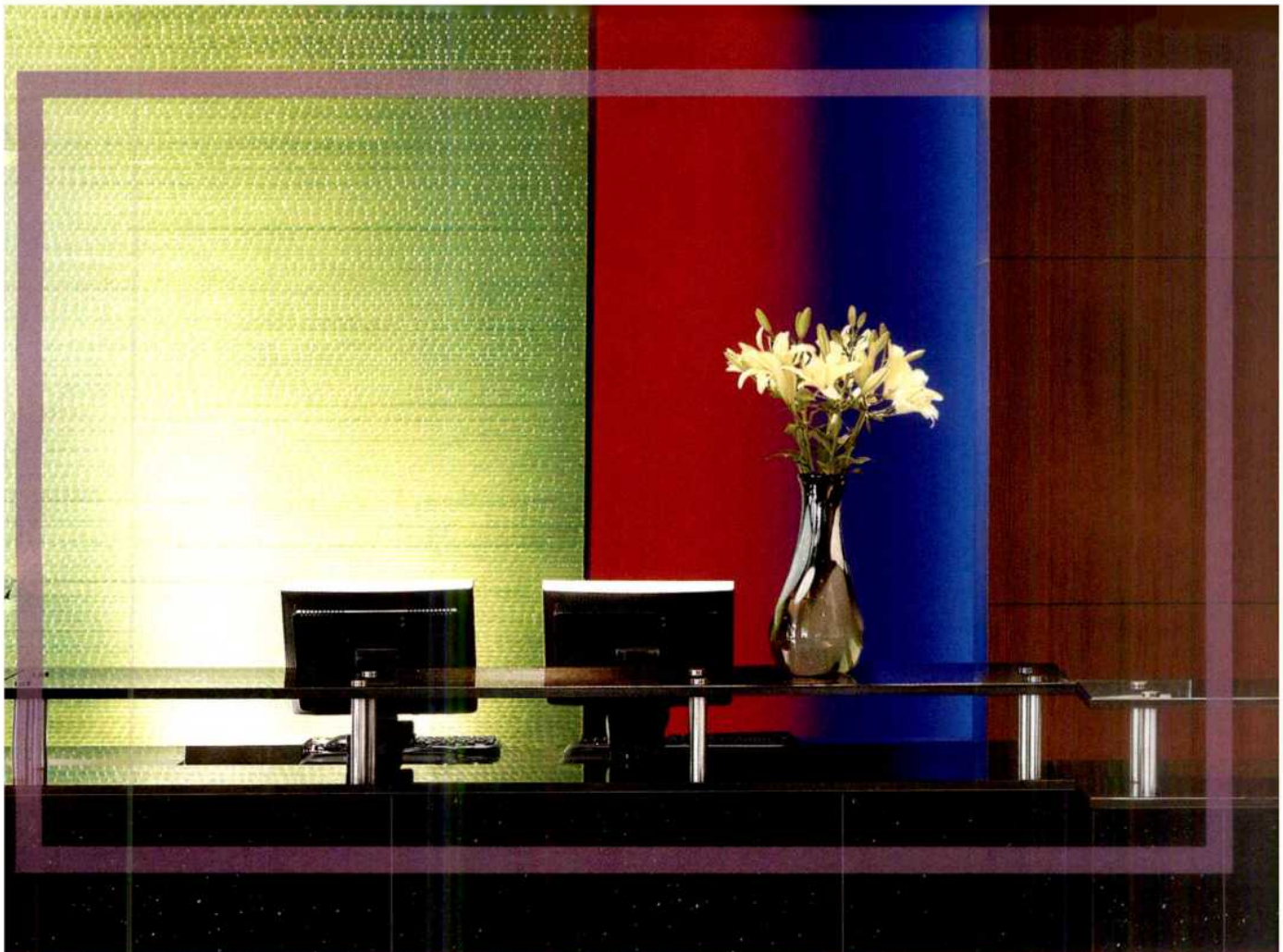

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BBDO INDIA

Standard Chartered Bank

Right on the Money

StanChart's Indian arm is the third-largest contributor to its global profits, after Singapore and Hong Kong.

By ANAND ADHIKARI

In early 1946, members of the Khoja Ismaili community gathered in Bombay to celebrate the diamond jubilee of the Aga Khan as their spiritual leader. The celebration was to end on March 10 at Brabourne Stadium, with the Aga Khan being weighed in diamonds. Arrangements were made to ship in 600,000 carats of diamonds through the London diamond syndicate. The sparklers were to reach Bombay (as Mumbai was called) six days before the ceremony. The Chartered Bank – now known as Standard Chartered Bank – in London was roped in to co-ordinate the shipment with the British and Indian authorities.

On March 1, however, the bank was alarmed to learn that the ship in which the diamonds were to arrive had been diverted to Basra, Iraq. On March 6, it sent an officer to New Delhi to meet Viceroy Archibald Wavell and sort things out. The viceroy's secretary wondered if using glass gems instead of diamonds would work but such suggestions were brushed aside. After hectic parleys, a speedboat left for Basra. The diamonds soon reached Karachi harbour, and by March 9 evening, they were in the safe custody of the bank. The next day, the Aga Khan was weighed as planned.

Founder James Wilson 1805-1860

The bank's efforts to help the Ismaili community reflect its work culture. StanChart has not only survived for 155 years in India, but thrived. "We are more local than any international bank, and more international than any local bank," says Sunil Kaushal, Regional Chief Executive for India and South Asia. From the bank's new corporate headquarters in Mumbai's Bandra-Kurla Complex, he leads a workforce of 18,500.

Kaushal is proud of his organisation's history. The London-based bank's first overseas

1858 Opens first Indian branch in Kolkata

1869 Shifts operations to Bombay, the emerging trade centre

1900 Opens office in Madras

1911 Opens Amritsar office to benefit from bullion market

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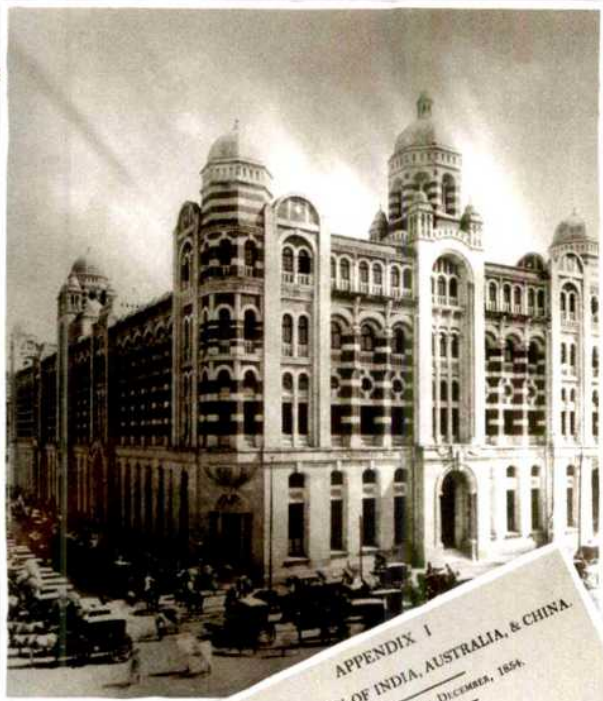


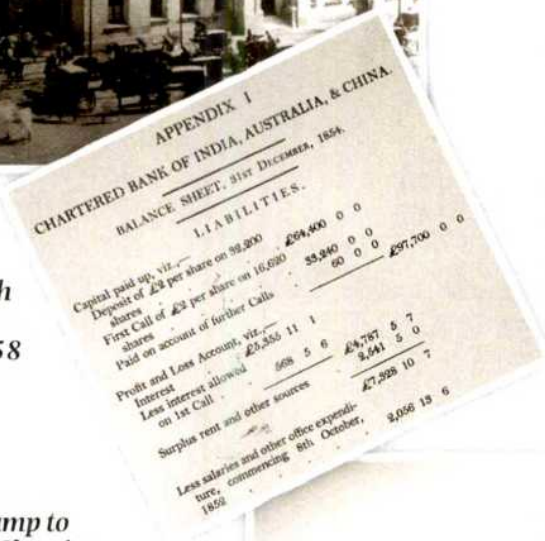
↑ *Standard Chartered Bank's first overseas branch opened in Calcutta in 1858*

StanChart India contributes nearly 10% to global revenues

Headquarters	:UK
Operating income	:$19bn
Net Profit	:$5bn

Source : Annual Report 2012

↓ *An early Chartered Bank note issued from Hong Kong*



APPENDIX I

CHARTERED BANK OF INDIA, AUSTRALIA, & CHINA.

BALANCE SHEET, 31ST DECEMBER, 1854.

LIABILITIES.

Capital paid up, viz.—		
Deposit of £2 per share on 99,800 shares	£99,600	0 0
First Call of £3 per share on 16,600 shares	33,240	0 0
Paid on account of further Calls	60	0 0
		£297,700 0 0
Profit and Loss Account, viz.—		
Interest	£5,555 11 1	
Less interest allowed on 1st Call	568 5 6	
	£4,787 5 7	
Surplus rent and other sources	3,541 5 0	
	£7,928 10 7	
Less salaries and other office expenditure, commencing 8th October, 1853	3,056 13 6	

← *First global balance sheet, 1854*

↓ *Postage stamp to mark StanChart's 150th year in India*

↑ *Branch in Mumbai's Fort area today*

1918
Survives major crash in which nearly 100 Indian banks fold up

1969
Loses Allahabad Bank to nationalisation

1992
Embroiled in Harshad Mehta scam

2000
Buys Grindlays Bank's India arm, becomes India's top foreign bank

2007
Buys 49 per cent stake in UTI Securities

2008
Indian postage stamp commemorates StanChart's 150 years in the country

2010
First foreign bank to list its shares on Indian stock exchanges

branch opened in Calcutta (as Kolkata was called then) in 1858, because it was the centre of the jute and indigo trades.

A decade later, the bank shifted its headquarters to Bombay. The newly opened Suez Canal drastically cut travel time between England and India, and the development of railways and the port made Bombay an ideal location. The bank also benefited from activity in jute, tea, rubber, tin and oil.

Today, StanChart, the oldest existing bank in India, boasts the largest network amongst foreign banks – around 100 branches in 42 cities. Its India operations are the third largest contributor to the parent's profits after Hong Kong and Singapore. Kaushal, who headed Taiwan operations earlier, says he wants India to be the top contributor. Considering the bank's steady organic and inorganic growth, his goal seems achievable.

In 1900, Chartered Bank set up shop in Madras (now Chennai). A decade later, it moved into Amritsar, Punjab, to cash in on opportunities in bullion. The bank, which operated in India, China and Australia, merged in 1969 with another British bank, Standard Bank, which had a large presence in Africa, and became Standard Chartered Bank.

Mumbai jeweller Raju Mahtani says: "We do 90 per cent of our banking with StanChart. Loyalty, comfort and service bind customers."

The $1.34 billion (some ₹6,164 crore at the exchange rate then) purchase of Grindlays's India operations in 2000 was a big step. "It gave us inroads into new private banking relationships and more penetration into consumer banking," says Kaushal. Last year, Grindlays CEO Mike Smith said that selling his bank's India operations was a 'mistake'. Grindlays re-entered India last year.

After the Grindlays merger, StanChart continued with its growth strategy. It bought UTI Securities and American Express Bank in 2007, and Barclays's retail portfolio – especially mortgages and personal loans – in 2012. It is the only foreign bank to benefit from global acquisitions at the parent level as well as in India.

Not many know that Chartered Bank owned Allahabad Bank before it was nationalised in 1969. In 1927, it bought a majority stake in Allahabad Bank, which is now the country's 13th largest, with assets of ₹1.82 lakh crore.

StanChart did a good job of riding the liberalisation wave. The bank started the corporate advisory team in 2003. Notable deals included Tata Steel's $422 million acquisition of Millennium Steel, Max's $1.08 billion buyout

Branch in Chennai's Armenian Street, circa 1900

2010 IDR listing – John Peace, Chairman, StanChart Plc rings the bell as Asia CEO Jaspal Bindra (second from right) looks on

of Aircel Ltd and Bharti's $10.7 billion purchase of Zain Africa BV.

"We were at the top in M&A by 2005," says Ananth Venkat, Managing Director for wholesale banking at StanChart India.

Because restrictions on foreign banks put domestic ones at a huge advantage, StanChart was 21st in the country in terms of assets (₹1.21 lakh crore) in 2011/12, and tenth in terms of operating profit (₹4,500 crore). Rival Citibank had assets of ₹1.28 lakh crore, and operating profits at 15th position of ₹3,472 crore in the same year.

Investing in People

But constraints on foreign banks, especially with regard to mergers and acquisitions, have not deterred StanChart from investing in India in terms of people, products, infrastructure and technology. Two Indian professionals – Group Executive Director and CEO for Asia Jaspal Bindra, and V. Shankar, CEO for Europe, the Middle East, Africa and the Americas – sit on the global board.

In 2008, the Indian government issued a postal stamp to mark the bank's 150th anniversary. Peter Sand, group CEO and a frequent visitor to the Indian office, said: "Nothing conveys the solidity of our commitment more strongly than our being here for this long." The success of foreign banks such as StanChart has encouraged others, such as First Rand and Credit Suisse, to enter India in the past five years.

In 2010, when the world was in the grip of a slowdown, StanChart became the first foreign company to list in India through the issue of India Depository Receipts. Today, the receipt trades at around ₹113 a share on the Bombay Stock Exchange.

The bank's long journey has not been free of troubles. In his 1954 book *Realms of Silver*, author Compton Mackenzie noted that the first world war and a failed monsoon disrupted business. By the time the war ended in 1918, nearly 100 banks had crashed in India. In protests following Mahatma Gandhi's arrest in 1919, StanChart's premises in Amritsar were damaged, and two of its officers narrowly escaped death, according to Mackenzie. The Great Depression brought its own problems to banking worldwide.

"We are more local than any international bank, and more international than any local bank"

Sunil Kaushal, CEO – India, StanChart

In 1992, StanChart's name figured in the stock market scandal in which broker Harshad Mehta misused the banking system to his benefit. "We had our lows, but we learnt and strengthened the bank," says Kaushal.

India had no central bank until 1935. The Presidency banks and the Imperial Bank dominated the sector for years. In 1949, StanChart came under the regulation of the Reserve Bank of India.

The bank has weathered the economic slowdown quite comfortably. "We are the only bank that is investing, opening new branches and making acquisitions," says Kaushal. It is the largest issuer of credit cards amongst foreign banks. "We also have a large portfolio of small and medium enterprises," the India CEO adds. He says StanChart's growth formula is to supplement its brick-and-mortar presence with digital access. StanChart is working to boost online and mobile banking, and cards. "Our strategy is to use the so-called lack of branches to our advantage," says Kaushal.

The veteran foreign bank, which sponsors a major annual marathon event, is clearly running for the long haul in India. ◆

Send your comments to editor.bt@intoday.com

For earlier stories on StanChart, go to
www.businesstoday.in/oldmnc-cipla

GLAXOSMITHKLINE

Glaxo Baby Grows Up

Remembered for its iconic baby foods, GlaxoSmithKline now owns a host of high profile brands in two distinct businesses – pharmaceuticals and consumer health-care.

By E. KUMAR SHARMA

For India, 1919 was historic for many reasons, including the Jallianwala Bagh massacre and the start of Mahatma Gandhi's ascendance in the Indian freedom movement. For pharma company GlaxoSmithKline the year was historic too, because it marked the beginning of its relationship with India.

On November 13, 1924, the company began operating in India through its agent H.J. Foster & Co. By 1947, it was manufacturing drugs at Worli in Mumbai. Soon afterwards, it changed its name to Glaxo Laboratories. Its brands have since became household names that generations of Indians literally grew up on and lived with: Farex baby food, Horlicks health drink, Eno antacid, Crocin tablets for pain and fever, and Iodex pain balm.

"The company looked at India as an investment for the long term," says Hasit Joshipura, Senior Vice President for South Asia and Managing Director of GlaxoSmithKline (GSK) Pharmaceuticals – the Indian arm of UK-based GSK Plc, as the company is now called. "It started manufacturing here way back in the 1950s and indigenised very early."

A Glaxo ad in London

The Indian arm has been headed by Indians since the 1970s. G.S. Medley, managing director in India from 1973 to 1977 was the last foreign chief, and J.S. Khambata, who succeeded him, the first Indian.

From an early stage, GSK evolved an India-specific business model. Products were manufactured here and sold at India-friendly prices. One of its most popular products, launched in 1963, was Betnovate ointment to treat skin irritation. Says a company spokesperson: "We adopt a flexible pricing approach for middle-income countries like India. We look at each

1919 Establishes trading links with India

1924 Begins operations in India as H.J. Foster & Co.

1947 Starts manufacture of pharmaceuticals at factory in Worli, Mumbai

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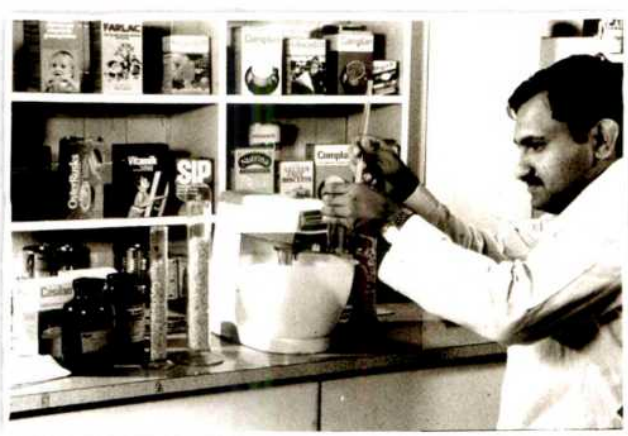
Made a mark in India with Horlicks, Farex, Betnovate and more

Headquarters	:UK
Turnover	:$41.1bn
Profit after tax	:$7.4bn

Source : Company annual report 2012
USD Currency conversion @current rate

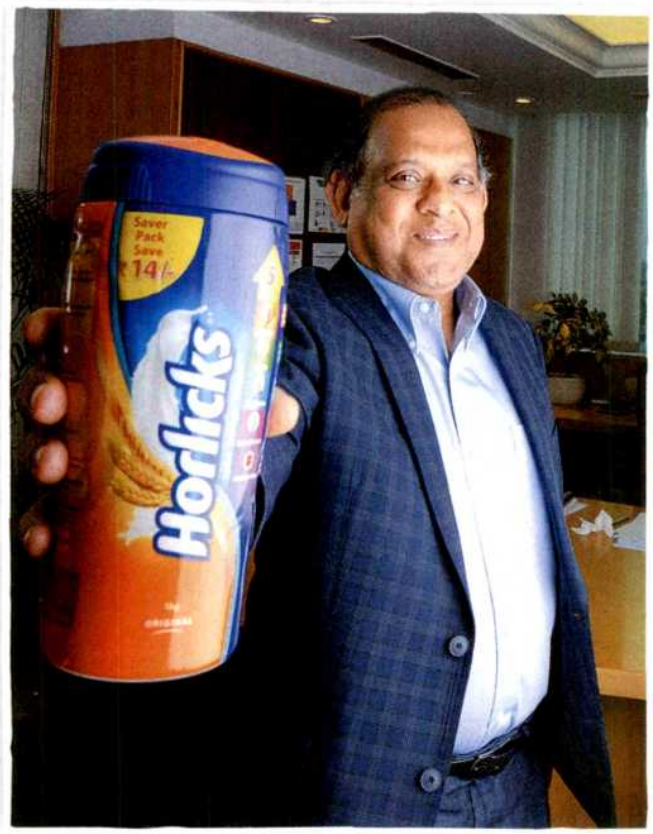
GSK's first calendar from 1928, which also advertised Glaxo's Malted Milk

(Top) Another Glaxo calendar from 1928; (below) Farex baby food tin



Food research product testing plant at Thane, near Mumbai

1963	1972	1996	2000
Launches the popular Betnovate skin ointment	Popular antacid powder, Eno, launched	Acquires painkiller brand Crocin	Glaxo Wellcome & SmithKline Beecham merge to form GlaxoSmithKline



SHEKHAR GHOSH/www.indiatodayimages.com

country individually. Within a country, we also sometimes adopt tiered pricing to facilitate access to medicines." She gives the examples of various cancer drugs. "On average, the products in India are priced at 25 to 30 per cent of the price in developed markets."

An India-specific innovation GSK officials often mention is the briefing folder medical representatives carry while meeting doctors. They maintain GSK created it in the 1970s. The company's drugs business, with 3,300 medical representatives marketing its numerous brands, has helped GSK Pharma in India reach revenues of around ₹2,800 crore today.

In pharmaceuticals, GSK's India portfolio includes prescription medicines across therapeutic areas such as dermatology, gynaecology, diabetes, oncology, and cardiovascular and respiratory diseases. The company is the market leader in most of these categories. It also makes vaccines for hepatitis A and B, influenza, chicken pox, cervical cancer and other diseases.

Its other business in India, consumer health-care products, is also flourishing. Indeed, for the British parent, India is the fastest-growing region in consumer healthcare. GSK Consumer Healthcare has doubled its top line in the last four years to more than ₹3,000 crore – a compound annual growth rate (CAGR) of 19 to 20 per cent. "We hope to maintain it," says Zubair Ahmed, Managing Director of the Consumer Healthcare division.

GSK has stayed the course in India despite major reversals. The worst hit it suffered was the first drug price control order of 1970, which affected 41 per cent of its products and hurt both top line and bottom line. But GSK did not pull back. Instead it changed strategy, entered other businesses and sought to launch products which would not be covered by the drug price control order. Today, only 23 per cent of its drugs are under price control.

GSK Consumer Healthcare's Ahmed says: "The bigger challenge today is the slowing down of the economy, coupled with the rise in prices of agricultural commodities such as wheat, sugar, barley and milk that go into the making of Horlicks." To combat these, he and Joshipura are building synergies between their businesses. For instance, in rural markets, GSK tries to provide a complete solution for children affected by contaminated water. It provides de-worming medicines such as Zentel, followed by Horlicks to improve nutrition.

Joshipura says India is a huge opportunity. "It is an opportunity for all pharma companies, not just GSK," he adds. "Today, GSK Pharma has 22 brands among the top 300 brands of the country. In five years from now, we would like to see this number rise to at least 35 brands." Globally, he expects future growth mainly from emerging markets, particularly China and India. "Emerging markets have been given a new thrust under GSK's current global chairman, Sir Andrew Witty, who has spent several years in the emerging markets and therefore knows their needs and potential first-hand," he says. ◆

"India is the fastest growing region for the consumer health-care business worldwide"
Zubair Ahmed, Managing Director, GlaxoSmithKline Consumer Healthcare Ltd

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SENSITIVITY PAIN GONE.
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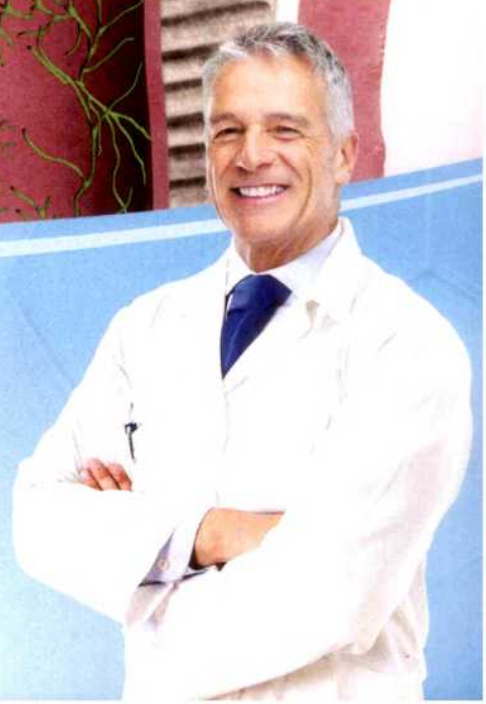
+
GUM PROTECTION*

RAPID RELIEF + REPAIR
WITH HAP MINERAL FORMULA



SKF

Getting Its Bearings Right

Swedish company SKF has survived high tariff barriers and labour problems to hold its own in the bearings market.

By SUPROTIP GHOSH

It was the worst of times and it was the best of times for Swedish ball bearings company AB SKF. On the one hand, Europe was passing through the turbulence of the First World War, which made it tough to do business in the continent. On the other hand, demand for ball bearings was up as a furiously-growing industry grappled with rising coal prices and a shortage of lubricating oil.

This was the political and economic environment that pushed the Swedish company to expand its business beyond Europe and start operations as a trading company, SKFCO (pronounced skef'co), in India in 1923. After India became independent in 1947, plans for domestic manufacture of bearings began to take shape and SKF's initial manufacturing foray in the country was with the Tatas. According to the memorandum of association, SKF was to provide 60 per cent of the capital and the Tatas the rest. The deal gave India access to SKF's technical expertise and the company's new factory was licensed as the country's sole manufacturer of a certain type of roller bearing used for cars.

Sven Wingquist, Founder

India's economic climate in the 1960s also helped SKF. With high tariff barriers keeping competition away, SKF India Ltd was incorporated in 1961 following a collaboration between AB SKF, Associated Bearing Company Ltd and Investment Corporation of India Ltd. The company's first bearings-manufacturing plant to meet the needs of the automotive industry came up in Pune in 1965. SKF made high profits in the early 1980s because of tax reliefs to companies that invested nationally, but from 1984 the tax relief ended and taxes began to rise again. Today, the plant owned by the $9.86-billion AB SKF can produce 1.4 million bearings at

1923 Starts trading activities from Kolkata

1961 Associated Bearings Co incorporated

1965 Starts production at Chinchwad, Pune plant

1989 Starts second plant in Bangalore

First bearing manufactured by SKF India being packed in 1965

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SKF is one of the largest bearings companies in India

Headquarters: Sweden

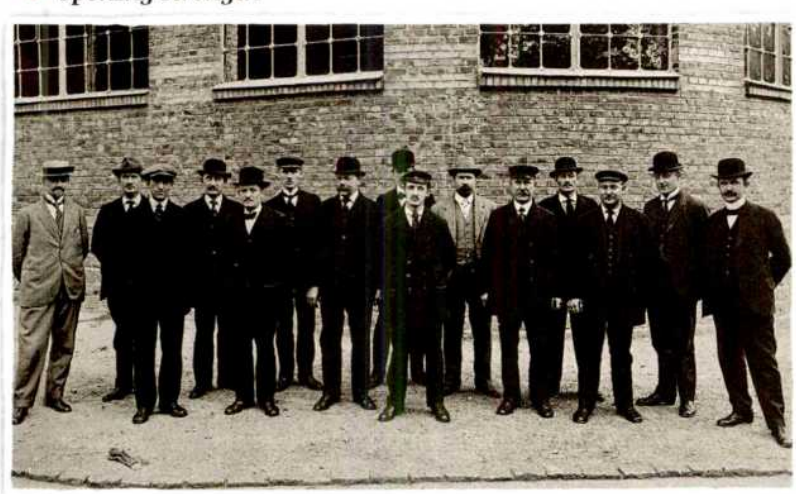
Revenues : $9.7bn

Profit after tax: $730mn

Source : Annual Report 2012
USD Currency conversion @current rate

Celebrating its 75th anniversary in India

The first 15 employees – SKF's opening strength



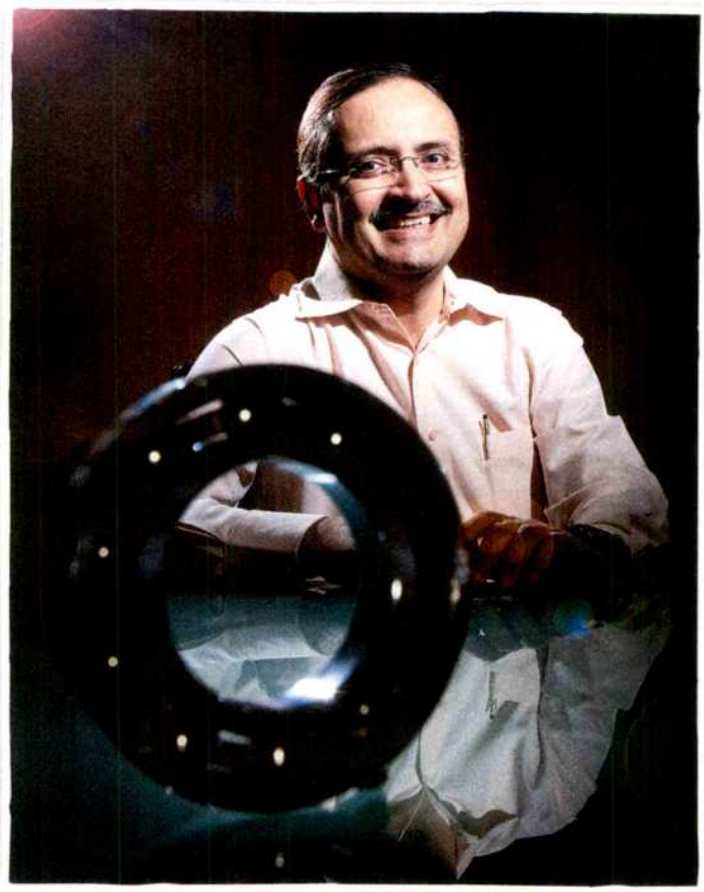
Old SKF ad

2002
Gets ISO certification for its automotive business unit

2004
Acquires VEC Ltd in Chennai

2009
Starts 'solutions factory' in Pune, to provide solutions to customers

2011
Establishes global technical centre in Bangalore



NISHIKANT GAMRE/www.indiatodayimages.com

each of its 14 lines every year.

By the 1980s, competition from foreign and smaller local manufacturers grew and SKF's market share fell to 23 per cent from 28 per cent. Despite high import duties ranging between 150 and 300 per cent, bearings from Eastern Europe were sold in India at exceptionally low prices. The company was already grappling with the impact of a strike in December 1977 that disrupted production. The issue was not resolved until the International Metalworkers' Federation (IMF) became involved, according to company sources. In 1981, all parties reached an agreement on wages and working conditions, and production returned to normal. The company employs around 3,000 people today.

Despite problems, business was starting to improve. In the 1980s, the company foresaw a boom in ceiling fans and two-wheelers, and set up a two-wheeler bearings plant near Bommasandra in southeast Bangalore, far from the hotbed of unionised workforces. SKF changed tack in the 1990s when India liberalised the economy and threw open its doors to foreign investment. SKF realised that a corporate strategy based on tariff barriers was bound to fail in the new economic environment and began to move towards a more globalised model. In 2009, it set up a global technical centre in Bangalore to provide solutions to customers. Eighty per cent of its resources are now devoted to providing solutions to the global parent, while the rest is for domestic solutions. The company plans to increase this share in domestic operations to 40 per cent in the coming years. "The economy globally has become so volatile that the speed at which you are required to execute your decision has completely undergone a change," says Shishir Joshipura,Managing Director, SKF India. "The strategic dimension to decision-making has acquired more significance than it ever had before."

> "The strategic dimension to decision-making has acquired more significance than it ever had before"
> Shishir Joshipura, MD, SKF India

SKF says the biggest proof of its involvement in India is the automobile aftermarket, where it commands an almost 50 per cent share. But it has certainly not been an easy ride. Competition and the rules of engagement have changed in an open economy. During the Lehman Brothers crisis in 2008, SKF was in the midst of building a ₹250-crore customised-bearings plant in Ahmedabad. Those days, the waiting period for industrial bearings was three years; by the time the factory was completed, it had come down to three days. "From a protected economy, we went to a free economy. That meant the rules of the marketplace changed. There was a time not too long ago, there was literally a rationing of bearings that were sold in the market. From there we moved to a position where there is a glut. So it calls for a completely different strategy," says Joshipura. "Today the focus is on productivity; to produce as much as we can from a given asset. Contrast that with the past when you could only produce your licensed capacity." ◆

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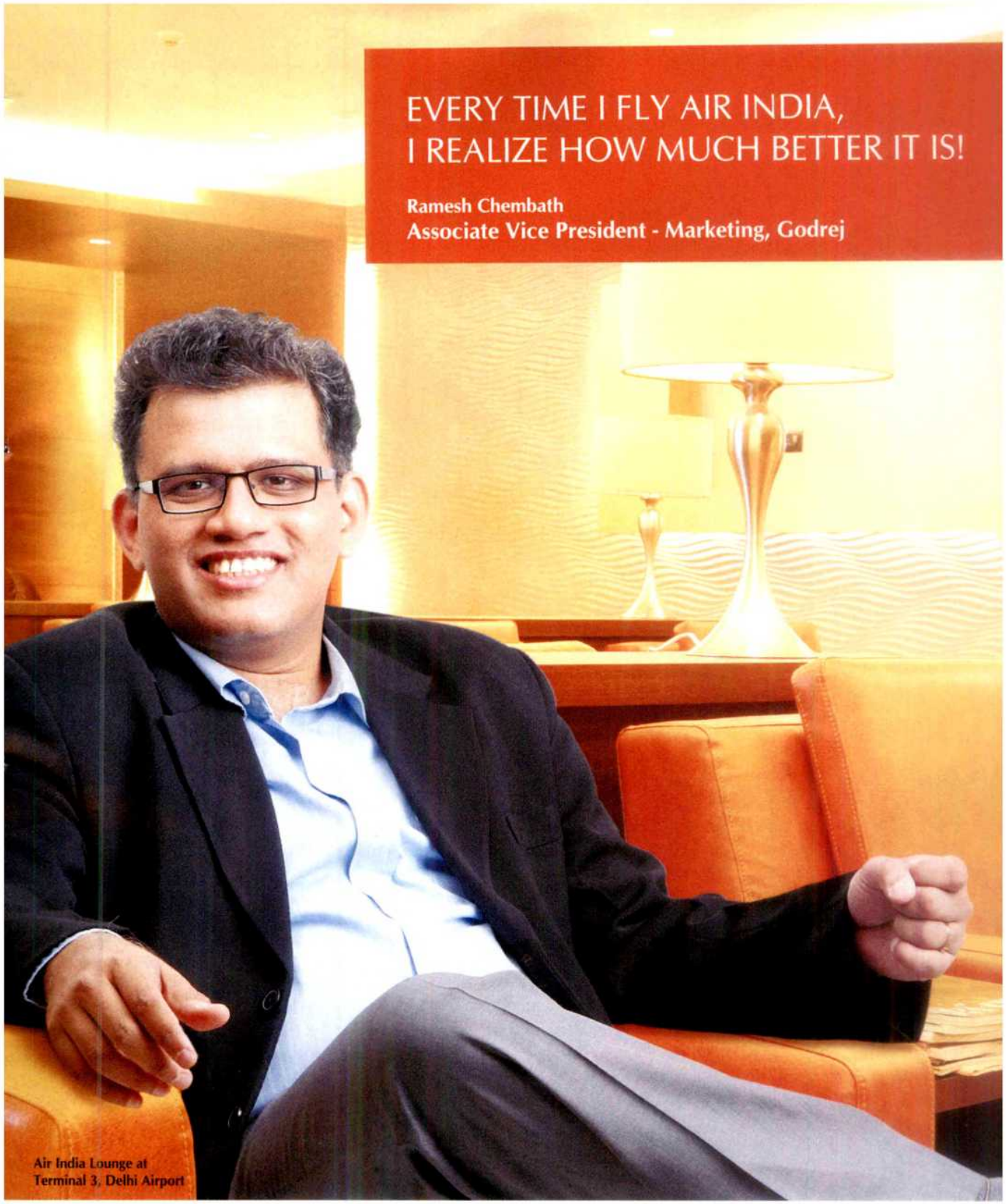

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GE

Always at the Forefront

From setting up the country's first hydropower plant to pioneering the BPO industry, GE India has many firsts to its credit.

By ANILESH S. MAHAJAN

In the 1880s, a British company, John Taylor & Sons, started extracting gold from the Kolar fields in what was then Mysore state. The mines were deep and extracting the yellow metal required heavy machinery that operated on steam power. As the mining industry grew, Kolar's electricity requirement increased and the mining company as well as the Mysore government began considering generating hydroelectric power to meet demand. At the turn of the century, the Mysore government selected General Electric Company to build a hydropower plant at the Shivanasamudra Falls near Mysore, marking the US company's entry into India.

GE, founded by the great inventor and Nobel laureate Thomas Alva Edison, was among the companies at the forefront of power generation from the famous Niagara Falls in the US. It completed the power station at the Shivanasamudra Falls in 1902. The power station, which was Asia's first hydroelectric project, supplied three megawatt of electricity to the Kolar gold mines. The project is still functional.

GE founder and renowned inventor, Thomas Edison

Since then, GE has spread its wings to several sectors in India. The company employs more than 14,500 people in the country. It supplies equipment to run nuclear power plants. It sells jet engines and locomotives. It makes health-care equipment. It also provides financial services. The company sells every product in India that it does globally.

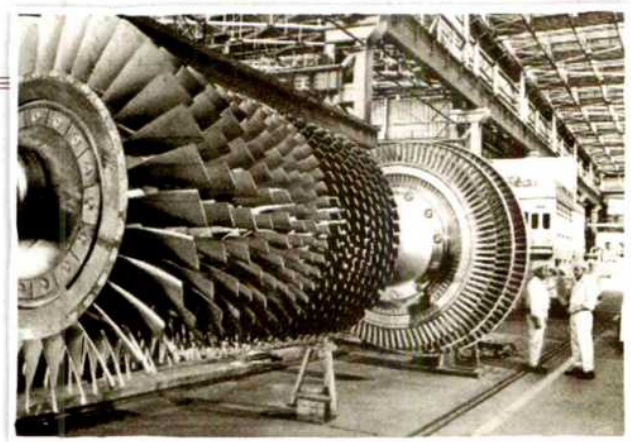
Though GE entered India at the beginning of the 20th century, it was more of a trading company for several decades supplying mainly power equipment. It began to increase its presence in India only in the late 1980s. In 1989, GE tied up with state-run Bharat Heavy Electricals to make gas turbines in India. A

1902 Establishes hydropower plant in Karnataka

1969 Sets up nuclear reactor at Tarapur, Maharashtra

1989 Ties up with BHEL for gas turbines

1990 Partners with Wipro for the health-care business



A steam turbine at the Triveni manufacturing facility at Peenya, Bangalore

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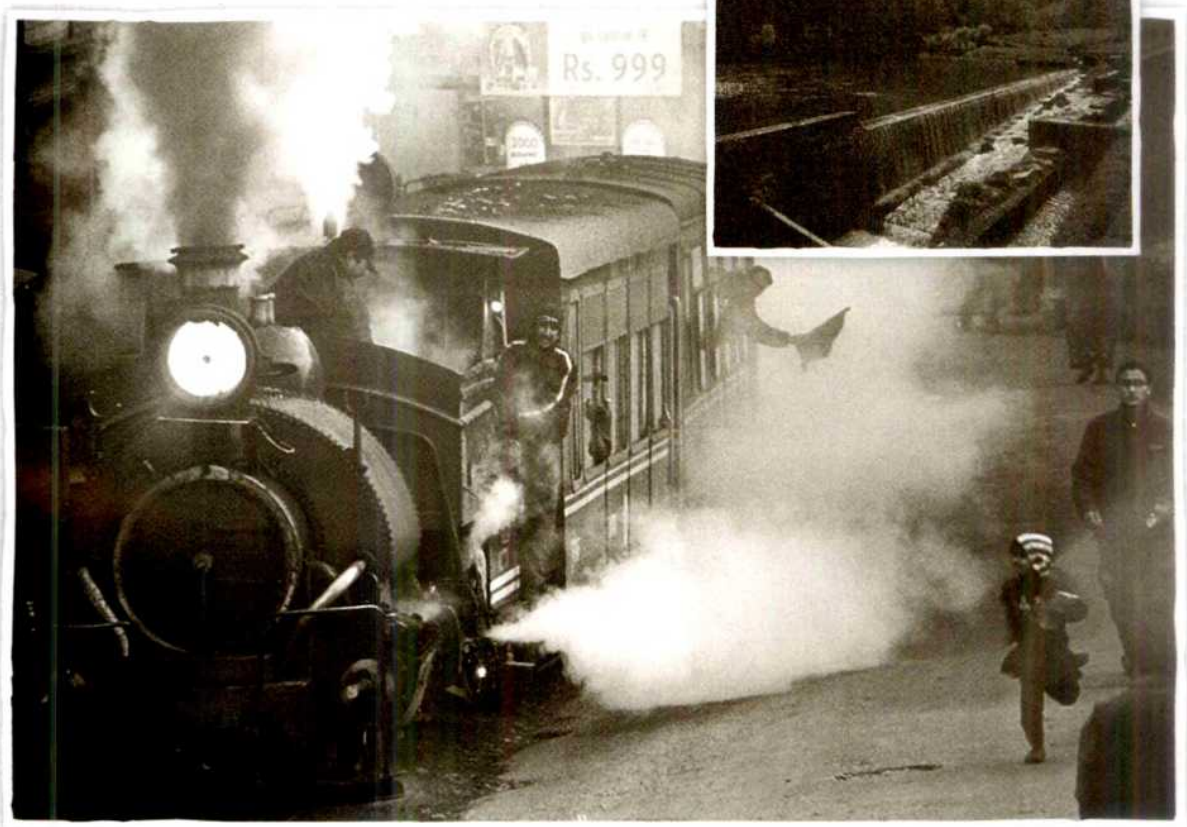
GE India rakes in $2.8 billion in annual sales

Global headquarters	US
Revenues	:$147.4bn
Net earnings	:$13.6bn

Source : Annual Report 2012

India's first hydro power plant in Karnataka, built by GE in 1902

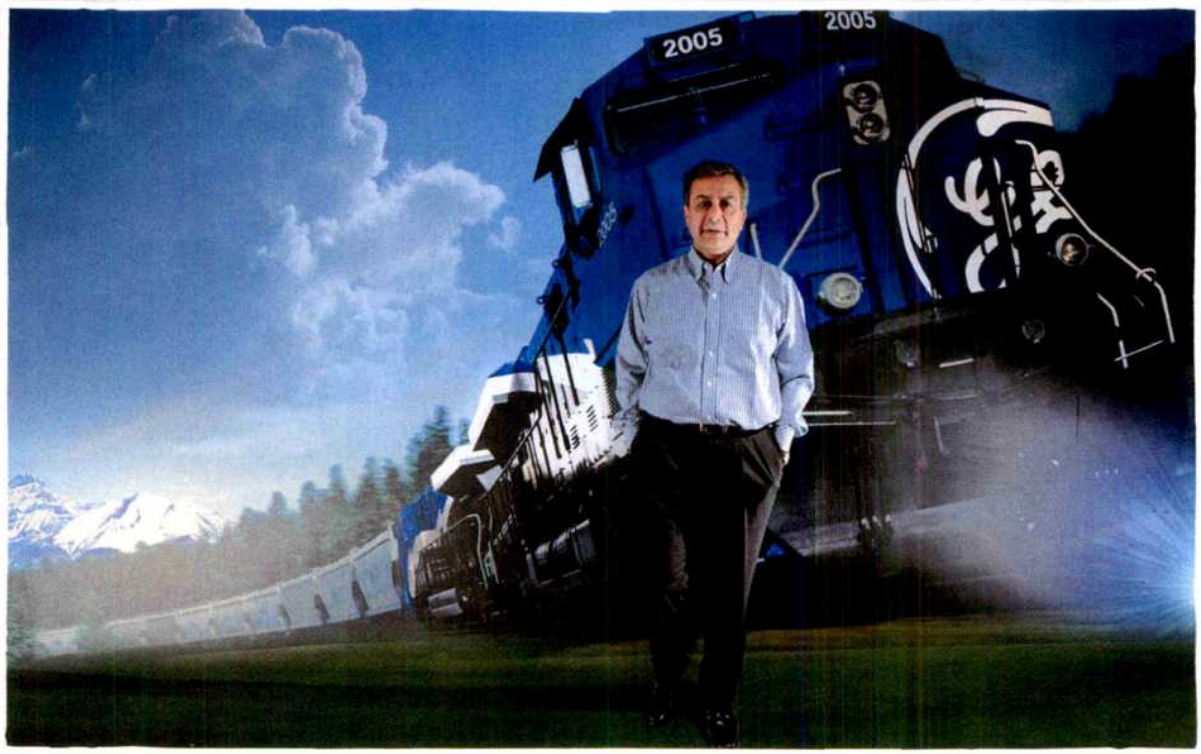


An old Indian diesel locomotive supplied by GE

1997
Establishes in-house BPO division

2003
Delivers first engine for Indian combat jet Tejas

2010
Forms JV with Triveni for steam turbines; sets up wind turbine factory in Pune



SHEKHAR GHOSH/www.indiatodayimages.com

year later, it formed a joint venture with technology company Wipro to sell health-care equipment. And in 1991, it set up a factory to make imaging products.

The credit for GE's expansion in India goes to its iconic CEO John F. Welch, popularly known as Jack Welch, who led the company from two decades until 2001. K.P. Singh, the real estate tycoon who founded DLF, in his autobiography *Whatever the Odds* recalls introducing Welch to late Prime Minister Rajiv Gandhi and his top advisers. Singh says it was Sam Pitroda, Gandhi's technology adviser, who suggested that India could become a hub for business process outsourcing (BPO). GE began shipping back-office work to India in the early 1990s, pioneering the BPO industry. Genpact, the current avatar of the back-office unit that GE formed and later sold off, is today one of the biggest BPO companies in India.

Still, the company hasn't grown as much as it would have liked to. Its India revenue is about $2.8 billion, global news provider Reuters said in February this year citing GE CEO Jeff Immelt. That's a fraction of the company's global revenue of about $147 billion. In a *Business Today* cover story in June 2005, the company's revenue goal for 2010 was $5 billion. In another *BT* cover story in October 2010, the company projected India revenue at $10 billion by 2015.

> "Energy and health-care sectors are the backbone of the company's India growth story"
> Banmali Agrawala, CEO, GE India

Banmali Agrawala, GE India's new CEO who took over in April, says however that the top management at the multinational giant is convinced growth will come from emerging economies such as India and China.

Agrawala sees growth coming from the energy and health-care businesses. "Both these sectors are the backbone of the company's India growth story," he says.

A former GE executive says the company had an opportunity to rapidly grow its power business in India, but it missed the bus. "Today, power equipment consumers are looking at Chinese players," he says.

Girish Shirodkar, Partner and Managing Director at consulting firm Strategic Decisions Group, says GE had a difficult 2012 in India because of the slowdown in the economy and infrastructure sector. "But they (GE) are increasingly looking at India as an end-use consumer market and that should provide it a lot of options and opportunities," he adds. ◆

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Philips Electronics

Light and Shadow

Trying hard to adjust to a changing environment, Philips got some things right and some things wrong.

By SUNNY SEN

Old habits die hard. Circa 2000: A sleek, green Mercedes waits outside Mumbai (then Bombay) airport for Rajeev Karwal, the ace LG executive who has just shifted to bitter rival Philips Electronics India as its consumer electronics head. It takes Karwal to Philips's lavish guest house in a swank apartment block, in an estate originally owned by the Scindias of Gwalior. Not far away is Philips's India headquarters where senior management sits on an exclusive floor. Tea is served in silver-plated pots, cups and saucers. "It felt like true blue blood," says Karwal, who now owns Milagrow, a company manufacturing tablet computers and dabbling in robotics.

Strikingly, Philips's share price at the time was at an all-time low, its factories faced labour problems, and its core consumer electronics business was struggling. Despite this, it seemed difficult for Philips to let go of perks and quirks picked up in 70 years of being in India. (It incorporated in India in January 1930.) For most of those years, it was market leader in consumer electronics.

Anton (on top) and Gerard Philips established Philips & Co. in Eindhoven, Netherlands.

Philips India officials declined to talk to *Business Today* for this story. Two former executives – K. Ramachandran, its first Indian CEO, and former President of the consumer lifestyle business, Anjan Bose, refused as well.

Sunil Dutt, former Managing Director of BlackBerry, who worked with Philips in the 1980s and 90s, says the company held almost 80 per cent market share in consumer electronics then. The radio market, especially, it ruled. But as television became popular and Korean companies LG and Samsung captured the Indian market, Philips lost its way. (See *www.businesstoday.in/casestudy-philips.*) In 1995, Philips was the No. 3 TV maker in India. By 2000, it had slipped to No. 5. Today, it figures nowhere in the pecking order. A former consumer electronics division head says: "Philips was the innovator of the analog era, but lost it in the digital era."

True, over the years, the company has tried to revitalise its brand. A $7-million ad-

1930 Indian subsidiary incorporated as Philips Electricals Co (India) Ltd

1956 Name changes to Philips India Pvt Ltd

1957 Company goes public

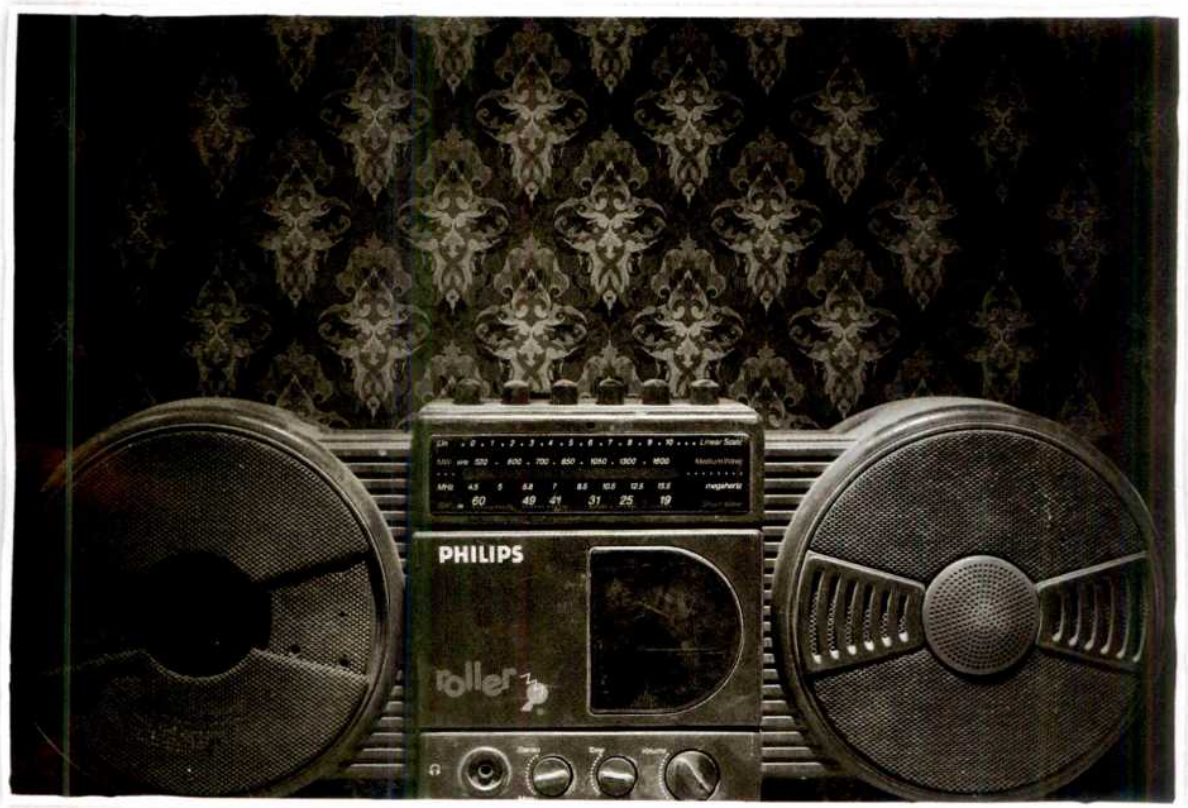
1979 Name changes again to Pieco Electronics & Electricals Ltd

9th Asiad at New Delhi, 1982. It was Philips which provided the lighting

Philips remains the leader in lighting, but is well behind in consumer durables

Headquarters	: The Netherlands
Sales	:$32.5bn
Net Income	:$300mn

Source : Company Annual Report 2012



ADITYA KAPOOR

An old Philips 'two-in-one', radio-cum-casette player, circa 1980s

1983
Opens new factory at Loni. Starts software subsidiary

1986
Sets up factory at Salt Lake, Calcutta. Starts making TVs

1999
Appoints an Indian CEO for the first time — Kris Ramachandran

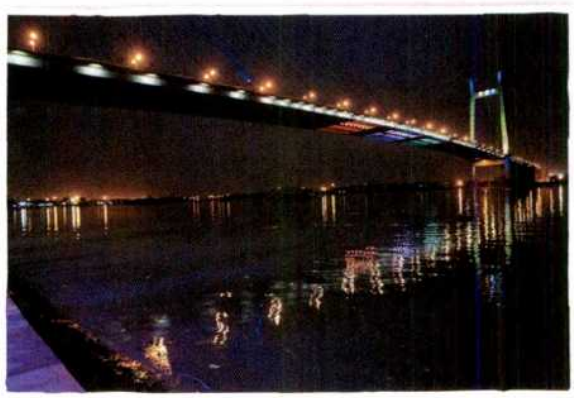
2000
Videocon takes over its Salt Lake factory

2004
Delists from the bourses due to compliance issues

2010
Outsources TV business to Videocon for five years

2012
Starts making health-care related imaging products

vertising campaign and a slew of TV launches including a wall-hanging plasma set in 1998 was one of them, followed in the 2000s by a big push in low-margin products such as DVDs and MP3 players, and home appliances such as hair dryer and steam irons. Yet consumer electronics' share of its revenue kept falling – from 42 per cent in 2005 to 28 per cent in 2010. In between, on August 29, 2004, Philips delisted from the Bombay Stock Exchange.



Philips provides the lighting at the Vidyasagar Setu (above) in Kolkata

For some, Philips still embodies quality,and commands loyalty. One such is N. Deb Choudhury, a former technical engineer, who in 1952, spent ₹40 – a small fortune then – on a cream-coloured 'state-of-the-art' Philips audio player. "LG and Samsung have just come to India. Philips was always more trustworthy," says the 88-year-old, who uses a Samsung mobile phone, but buys only Philips bulbs and tubelights.

Happily for Philips, as consumer electronics declined, its lighting business lifted its fortunes. The breakthrough came in 1982, when it bagged the lighting contract of the Jawaharlal Nehru Stadium in Delhi for the Asian Games. "In 1983, Philips took a visionary step by setting up a bulb factory in Chandigarh," says an ex-Philips lighting regional head. More factories followed.

In lighting, it countered competition well. In 1986, Surya, Bajaj and Sylvania Laxman were giving discounts of 30 to 35 per cent to retailers against Philips's 15 per cent. But once its fourth lighting factory started in Loni, Maharashtra, it increased discounts to 27 per cent, and market share rose to 40 per cent, says Dutt. Today, Philips remains the market leader in lighting.

Despite this, ballooning costs became a concern but smart solutions were fleshed out. "Of 11 factories, only two survived by 2002," says Vineet Kaul, Chief People Officer at Hindalco and a former HR head of Philips. "The idea was to become asset light and look at an in-sourcing model versus an outsourcing model."

Philips's financial performance remains healthy. In 2011/2012, on an annualised basis, revenue grew 19 per cent to ₹4,522 crore, and net profits by 20 per cent to ₹107 crore, according to data from CMIE Prowess. Its health-care equipment business has also helped Philips sustain its profitability, especially the move into making imaging products. In the past few years, it has set up exclusive showrooms called "light lounges" in nearly 50 cities, roped in John Abraham and Kareena Kapoor as brand ambassadors and bought Maya Appliances, which owned kitchenware brand Preethi.

The jury is out on whether Philips can regain its lost glory. But lost forever is the quaint, royal-like Bombay charm. With the India headquarters having moved to Gurgaon, gone too is the demarcated area where tea was served in silver cutlery. ◆

Send your comments to editor.bt@intoday.comw

For earlier stories on Philips, go to www.businesstoday.in/oldmnc-cipla

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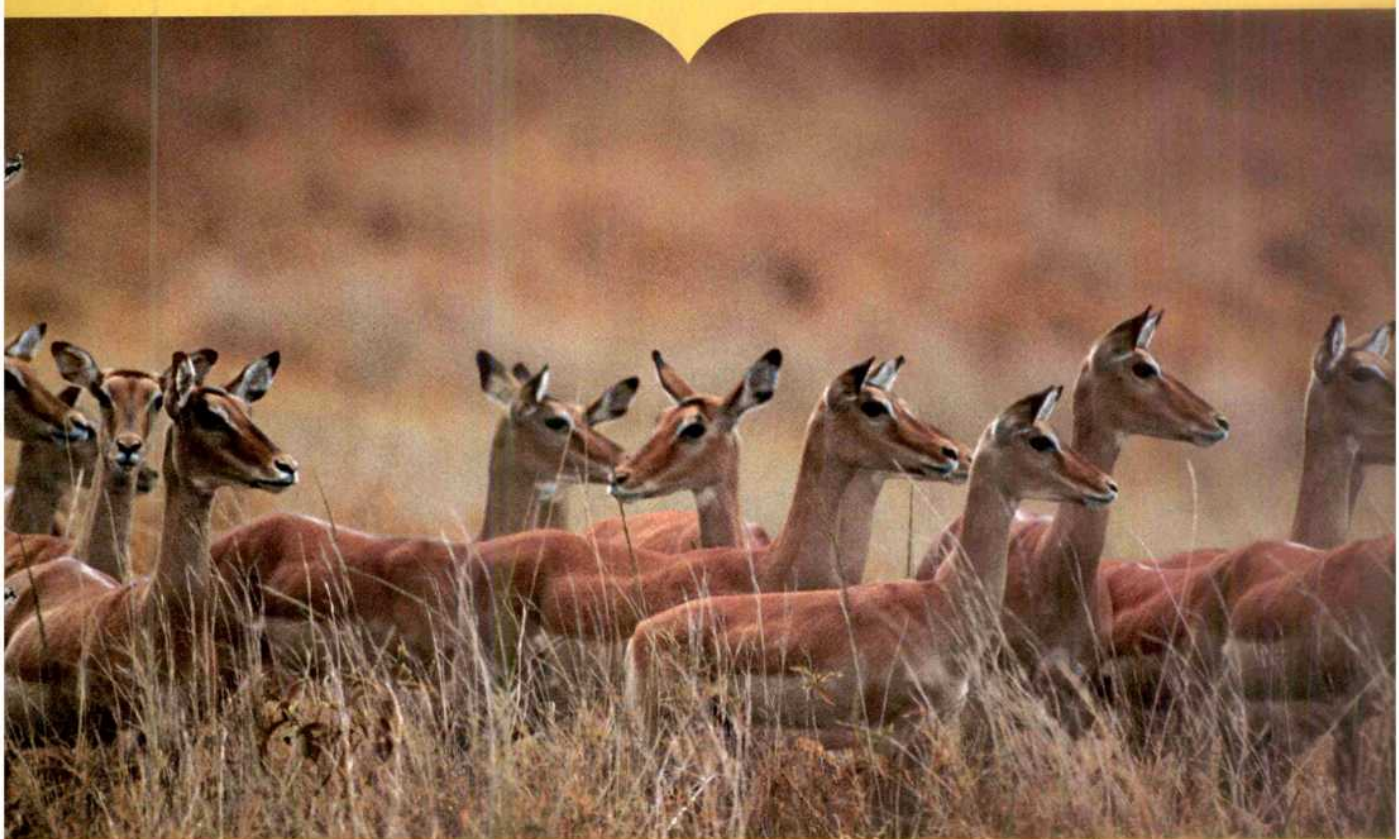

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Hangout

EXECUTIVE SUMMARY:
7-Eleven is known in the United States as a convenience store chain where customers can grab snacks, drinks and other everyday products on the go. In most parts of the world, it is a no-frills store with little emphasis on decor. But in Indonesia, 7-Eleven has been positioned as a trendy spot where young people spend time, surf the Internet and meet friends. This case study of 7-Eleven illustrates how a brand needs to and can benefit from adapting to a local market.

By MARGOT HUBE, DEIKE DIERS and ANDREA GULISANO

Haven

It's one of the hippest places to hang out in Jakarta. And it isn't some trendy new French restaurant in a Dutch-era heritage building. Instead, thousands of people in the Indonesian capital spend their evenings sipping coffee or beer on pavement tables at their neighbourhood 7-Eleven, the international convenience store synonymous with anytime, on-the-go shopping in most parts of the world.

Indonesia's 7-Elevens are, clearly, a long way from the original concept behind the world's largest convenience store chain. "At 7-Eleven, our purpose and mission is to make life a little easier for our guests by being where they need us, whenever they need us," says the company's website. And that's what it has been doing all over the world since the first convenience store was born after a Southland Ice Co employee in Dallas started selling milk, eggs and bread from an ice dock in 1927.

Today, the chain has grown to about 49,500 stores in 16 countries, more than 10,000 in North America itself, but its core customer remains the same: people on the go who need a one-stop shop to quickly buy everyday products. Typically, most 7-Eleven stores all over the world are conveniently located in office areas and are open around the clock.

Initially, 7-Eleven spread its wings slowly. In its early years, it grew strategically in suburbs in the United States and areas too small for a supermarket: by 1963, it had 1,000 stores across the country. But it began to grow at breakneck pace after it adopted a franchisee model the following year. In 1969, 7-Eleven began expanding beyond US borders and set up shop in Canada. In the 1970s and early 1980s, it expanded to Mexico, Japan and Asian markets such as Taiwan, Singapore and the Philippines. With the increasing importance of emerging Asian markets such as Thailand, the Philippines and Malaysia, 7-Eleven Corporation moved its corporate headquarters to Japan in 2001.

The 7-Eleven chain has about 49,500 stores in 16 countries across the world, over 10,000 of them in North America

Traditionally, 7-Eleven's entry strategy is to target urban markets and tailor stores to local tastes. For example, customers in Hong Kong can pay their phone and utility bills at a local 7-Eleven; in Taiwan, they can service their bicycles or photocopy at the convenience store; and in the US they can pick-up their online Amazon shopping there. By offering these services – often exclusively – customer traffic can be increased significantly. To achieve this customer orientation and competitive advantage, almost all stores arfe operated by franchisees, who understand the local environment.

So, when 7-Eleven entered the Indonesian market in 2008, the

ILLUSTRATION BY SANTOSH

HOW MUCH TO ADAPT IS A CLASSIC DILEMMA FOR GLOBAL BRANDS

As global brands from Western countries adapt to emerging markets, they face the challenge of different demographics and income patterns. How much to adapt while retaining the brand DNA is a classic dilemma. Adaptation needs to be limited for luxury brands as their target market tends to be the top of the pyramid, where consumption patterns are global. Similarly, for technological products, like software or smartphones, the adaptation needed is relatively small. Retail is one area, especially mass merchandise retail, where global success stories are few and far between. Even the most successful global retailers – Carrefour, Metro and Wal-Mart – have had their share of failures.

Why is global mass retailing so challenging? The products/brands sold by mass retailers are not unique – and are already widely available in the country. As a later entrant, a global retailer is unlikely to find the best locations available and it is unlikely to have a lower cost of operations than local mom-and-pop stores. To succeed, the global retailer has to offer better customer experience while hoping that savings from state-of-the-art global systems will more than compensate for the higher real estate and operating cost disadvantages.

The 7-Eleven case in Indonesia is an outstanding example of a global retailer having found a unique proposition with its customer experience that taps directly into the demographic differences of the country. For global firms, after China and India, Indonesia has perhaps the greatest potential. Kudos to 7-Eleven for unlocking this.

"Retail is one area, especially mass merchandise retail, where global success stories are few and far between"

PROF NIRMALYA KUMAR,
Professor of Marketing and Director of the Aditya Birla India Centre at London Business School

7-Eleven in Indonesia has everything local markets offer, and more. It also has live entertainment and wireless connectivity

question was: what was the Indonesian customer looking for and where should the retailer position itself? The Southeast Asian country was an ideal market for a retailer. It was among the world's largest growing economies with a population of 240 million and a growing class of consumers.

But Indonesia had some typical traits not found in other markets. For one, just hanging out and doing nothing is so deeply embedded in Indonesian culture, the local language has a special word for it: *nongkrong*. People traditionally gather at street markets and share stories, eat in local markets and roadside food stalls called *warungs* or Western fast-food chains such as McDonalds, Dunking Donuts or coffee shops such as Starbucks which entered Southeast Asia a while ago. Moreover, Indonesia is highly plugged-in: the country had an estimated 20 to 30 million Internet users in 2009, a big chunk of them between the ages of 15 and 19.

7-Eleven studied the culture, habits and tastes of the Indonesian

population and realised Indonesia lacked places where young people could hang out, eat, drink and follow their new passion: being online. It adopted a unique business model in the country: it blended a small supermarket with inexpensive ready-made food and seating to cater to Jakarta customers looking for outdoor recreation space in a city where traffic jams often restrict mobility. 7-Eleven in Indonesia included everything local markets and street vendors offered – and more. The store is open 24 hours, has hassle-free parking, offers leisure activities such as concerts, is air-conditioned and, most importantly, has wireless connectivity. Sixty-five per cent of the Indonesian franchise's customers are less than 30 years old and love social networking. 7-Eleven also featured local artists or live bands to further attract the nongkrong-ing crowds at its stores.

7-Eleven in Indonesia is more focused on the experience of hanging out rather than the convenience store concept itself. Its valued customer there is between 18 and 35, works in a large commercial area and is happy to pay a premium for food and drinks if he has an enjoyable place to spend some time. He/she is not bound by time and stops by throughout the day and night, which makes it worthwhile to stay open 24/7. In addition, the social network connectivity of visitors to 7-Eleven stores, who tweet and post

7-ELEVEN STANDS OUT FOR ITS MARKETING STRATEGY

7-Eleven's success in Indonesia is an ideal case to study how a brand redefines its marketing strategy to enter a new market. While other brands are struggling to find their place in the market, 7-Eleven stands out for its marketing strategy. The new local strategy is aligned to the growing demographic opportunity in the Indonesian market, where young people below 30 account for almost 40 per cent of the population. Capturing this important market with the right positioning – a cool, trendy place to hang out with affordable meals, drinks and fast Internet – have been the key success factors. It shifted its core brand proposition from a convenience store in the US to a place where convenience store meets Internet café for young people in Indonesia.

Moving forward, keeping pace with changing customer needs, a fast-moving economy and a competitive environment in Indonesia are the challenges for 7-Eleven. While the entry strategy perfectly captured a strategic position, competitors are adapting their strategy to win back market share. The local 7-Eleven concept is not that hard to copy after all, especially when some competitors have been established in the country for a longer period of time. The size and design of 7-Eleven stores needed to implement its strategy also deters expansion in every corner of the country. It has to carefully chose the right corner to be spacious enough for both the store and Internet café, and strategically located to be viable as a 24/7 concept.

"It shifted its core brand proposition from a convenience store in the US to a place where convenience store meets Internet cafe"

LASSI LASTIANI,
Finance Director, Consolidated Services International, Jakarta

about their experience, attracts new customers. It is "hip" to hang-out at the local 7-Eleven store.

When it came to pricing strategy, the local franchise followed the company's traditional model. It leveraged the fact that its stores are open 24/7, even when other food retail competitors are closed, and priced products at the upper end. The placement strategy of 7-Eleven Indonesia was also the same as the US. The stores are located in commercial and office areas, but not public transport stations because they are not seen as premium locations. But unlike the US, the archipelago of around 17,000 islands does not have a 7-Eleven literally at every corner; instead it focuses on big hubs in Indonesia.

7-Eleven Indonesia's unique customer experience extends to popular local artists and social media websites. Local artists perform in

The target customers are 18 to 35-year-old workers in large commercial or office areas, who hang out at 7-Eleven after work

7-Eleven stores because their fans like to hang out in these areas and 7-Eleven provides the location at low or no costs. Although 7-Eleven has a first mover advantage and has already built up a strong brand name and large customer base, new competitors will come into this market and existing ones are likely to reposition themselves. 7-Eleven should continue to innovate its product range and offer additional services that meet local traditions and customer needs to stay ahead of the competition. ◆

(This case study is from the Aditya Birla India Centre of London Business School.)

What can we learn from 7-Eleven's experiences in Indonesia? Write to btcasestudies@intoday.com or post your comments at www.businesstoday.in/casestudy-7-Eleven. Your views will be published in our online edition. The best response will win a copy of ***India Inside*** *by* ***Nirmalya Kumar*** *and* ***Phanish Puranam****. Previous case studies are at www.businesstoday.in/casestudy*

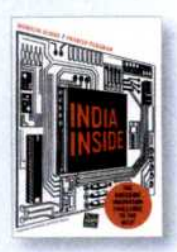
BEST OF THE LOT

BT receives scores of responses to its case studies. Below is the best one on Oreo in the March 31, 2013 issue

J.S. Broca, Retired Chief Manager, Bank of India, jsbroca@yahoo.com

The Oreo case study (Business Today, March 31, 2013) was undoubtedly one of the best in recent times and it throws new light on marketing and brand management strategies of the company. However, had it added a few more insights, especially about its name and Twist, Lick and Dunk (TLD) strategy, I feel it would have connected more with the readers. I had often wondered about the cookie's name. The people at Nabisco aren't quite sure. Some believe the cookie's name was taken from the French word for gold, "or", which was the main colour on early Oreo packages. Others believe the name is a combination of "re" in cream and the two Os in chocolate – O-re-o. And still others believe the cookie was named Oreo because it was short and easy to pronounce.

All said and done, it is a catchy name and if you pronounce it with breaks as "O" "RE" "O", it sounds as if you are calling someone's attention in Hindi. (Hey, You There) I also found its TLD strategy very innovative. The sandwich biscuit, launched in early 2011 with its global Twist, Lick and Dunk communication, had broken across various types of media, including television, print, outdoor, radio and digital. The ritual is about twisting an Oreo cookie open, licking the vanilla cream, dunking it in a glass of milk, before relishing it. The TV commercial depicting a playful prank between a father and his son, centered upon the Twist, Lick and Dunk ritual, was enjoyable and hard-to-miss.



J.S. Broca wins a copy of India Inside *by Nirmalya Kumar and Phanish Puranam*

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LAST BUT NOT LEAST

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First Blush

Pink tourism takes off in India.

By DEARTON THOMAS HECTOR

Out of the closet: Two of the participants in a gay pride parade in Delhi. Many online travel agencies have sprung up to facilitate travel for gays and lesbians in India

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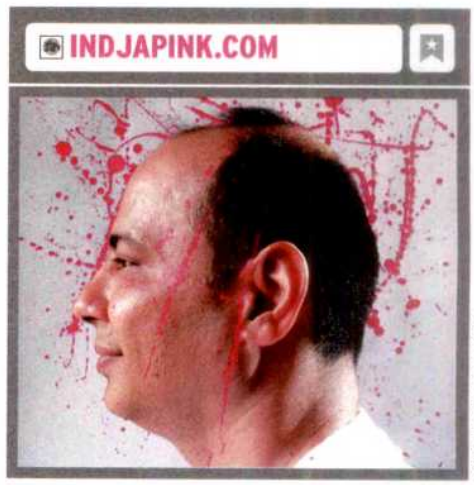


ADITYA KAPOOR

Travel agency for LGBTs founded by:
Sanjay Malhotra
Started:
October 2008
Revenue:
2012/13: ₹2 crore

November 2011. A wedding is being held on the grounds adjoining the Devi Garh Hotel in Udaipur, Rajasthan. A small group of onlookers watches in fascination as the couple circumambulates the sacred fire seven times, while a Hindu priest chants mantras. Why are they so intrigued?

Because both those marrying are clad in smart sherwanis. Both happen to be men. The wedding is an instance of the growing phenomenon of lesbian, gay, bisexual and transgender (LGBT) tourism as a niche category in India.

Both men were well aware that India is still a long way off from recognising gay marriages. In fact, they were already married, having signed on the dotted line in one of the US states where gay marriages are legal. They were in India merely for the experience of a big, fat Hindu wedding. And their entire trip was organised by the travel agency Indjapink.com, founded by Sanjay Malhotra in October 2008.

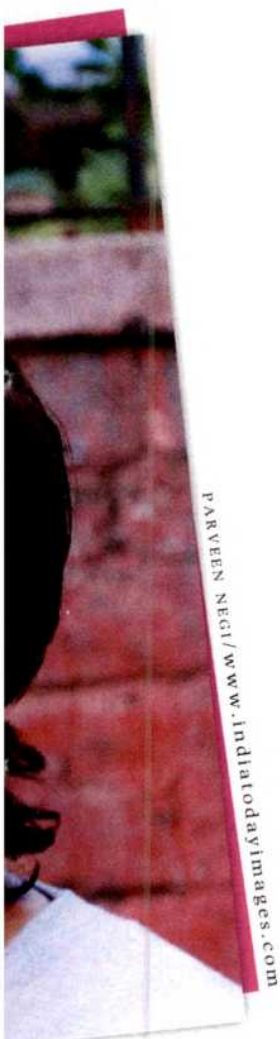
"The function lasted five hours and I was the best man," says Malhotra, who readily acknowledges that he is gay himself. He even arranged for a *baraat* to accompany the couple to the wedding venue. Did they face any prejudice? "On the contrary, they were treated like royalty," says Malhotra.

Indjapink.com is just one of a number of online travel agencies that have sprung up to facilitate LGBT travel in India. There is also Pinkvibgyor.com, begun by Rajat Singla in partnership with an Australian friend, Peter Housie, another self-confessed gay, in January 2010.

There is Outjourneys.com, founded by Abhinav Goel in April 2010. Even some regular travel portals, such as Go India Journeys (goindia.co.in) have begun organising special packages for this section, while others are seriously contemplating doing so. "In the next three to six months, we are also planning to start tours for the LGBT community," says Sharat Dhall, President, Yatra Online. "Travelling with like-minded people is essential for this group."

The biggest fillip this niche segment has received is the Delhi High Court judgment of July 2009 which decriminalised homosexuality by ruling that if Article 377 of the Indian Penal Code, which covers various 'unnatural' sex acts, was applied to consenting gays, it would be a denial of their fundamental rights. But even after the judgment, attitudes have been slow to change. Malhotra, who started Indjapink even before the judgment, says he spent 10 months before that travelling the country seeking to sensitise hotel managers and tour guides to the needs of the LGBT community. "It is still a challenge to find gay-friendly tour guides and gay-friendly hotel managers," says Singla.

But customers are slowly trickling in, even though foreigners among them outnumber Indians. Malhotra says he began with just a dozen tourists, but in 2012 he had 120 of them. So too, Goel of Outjourneys.com had just 15



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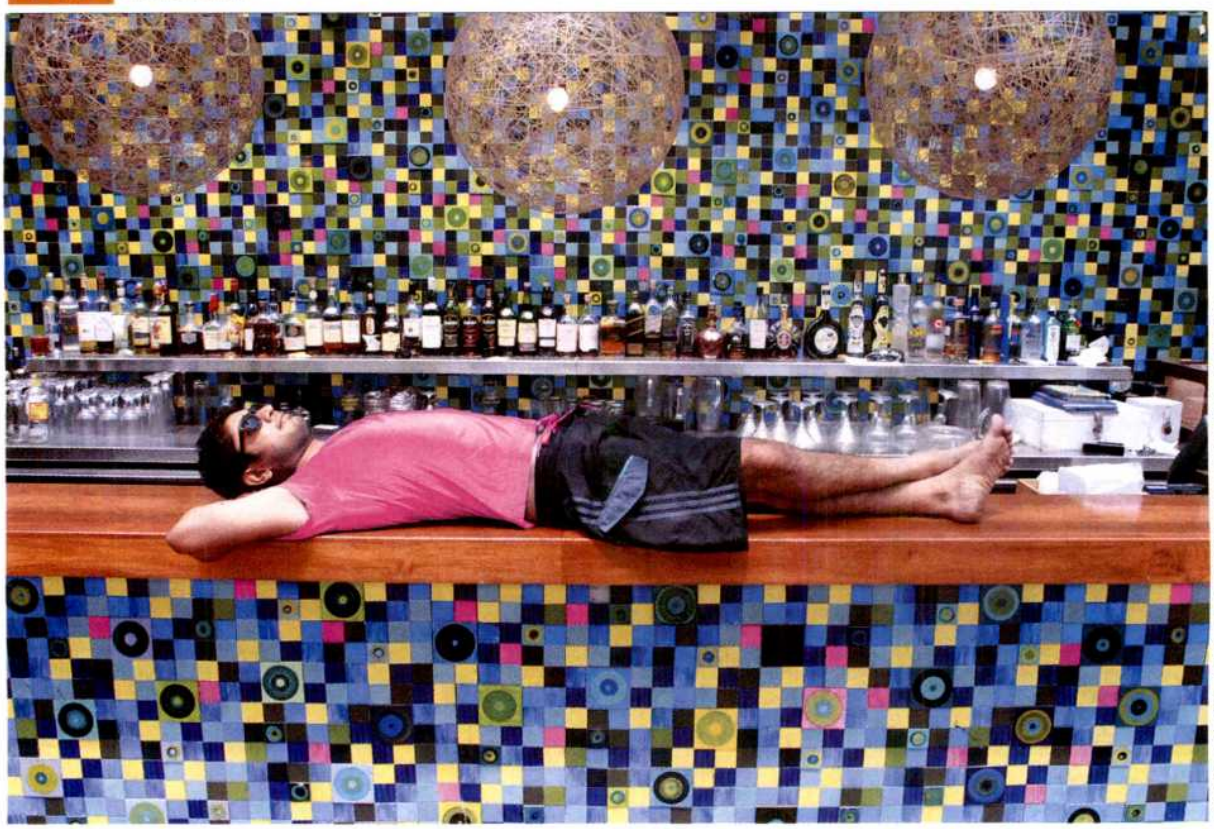


ADITYA KAPOOR/www.indiatodayimages.com

travellers in 2010. But in 2012/13, he had 200. "We should have more gay-friendly hotels in India," says Amit Agarwal, Vice President, Sales and Operations at Go India Journeys.

Charges at these portals vary, depending on the length of the tour and the quality of accommodation the tourists seek, but usually start around $2,000 per head, going up to even $35,000 per person for luxury, all-India-tour packages.

"Margins are usually around 20 to 25 per cent in this business," says Goel, a qualified chartered accountant. The states most choose to visit are no different from those to which straight tourists too gravitate – Rajasthan, Kerala and Goa. Among specific locations, the most popular – once more, no surprise – are Agra, Khajuraho and Varanasi.

The portal owners also noted that the majority of their clientele was male. "Lesbian couples are very wary of travelling to India, or at least they don't announce that they are lesbians while in India and they seldom come through agencies like ours," says Singla. So too, travellers were mostly middle aged, perhaps because young people have less of disposable income.

PINKVIBGYOR.COM

Travel agency for LGBTs founded by:
Rajat Singla
Started:
January 2010
Revenue:
2012/13: ₹1 crore

One such couple was Robert Stanfield, 57, and Robert Unger, 55, from the US, who have been together for 31 years, and were on their second visit to India, organised by Pinkvibyor. Their experience of India, they say, has been mixed. "At a hotel in Jodhpur, the staff apologised because they could only give us a room with a large double bed, and not twin beds," says Unger smiling. "We told them a double bed was exactly what we wanted. You could see the confusion on their faces."

Malhotra regretted that the government had not done anything to encourage LGBT tourism. "Till now, we haven't got any proposal from private players or any sizeable data suggesting that this is a sector deserving of separate focus," says a Ministry of Tourism official who does not want to be named.

Certainly, it is early days yet. "Right now, it is only local businesses reaching out to gay tourists. What will really make a difference is if tourism offices of the country get on board to make a wider push to LGBT travellers globally," says LoAnn Halden, spokesperson for the US-based International Gay and Lesbian Travel Association. ◆

Send your comments to editor.bt@intoday.com

NANDAGOPAL RAJAN

Think Out of the (Mail)Box

Email is evolving, especially to meet the needs of smartphone users

Electronic mail, or email, may have evolved in the last two decades, but the overall experience of using it remains more or less the same. Lately, however, there are signs of change, driven mostly by the arrival of mobile devices. Octane, a market research firm, says people accessing the Internet on their mobiles and tablets mainly do so to send emails, or check out social networking sites. Their requirements from email service providers are different from those using PCs.

Perhaps as a result, many new apps now provide out-of-the-box solutions to email. I recently downloaded an iPad app called Cloze, which calls itself 'mail with a human touch'. Instead of the regular inbox and sent folders, this app sorts mail into 'key people', 'other people', 'bulk mail' and the like. People with whom you interact the most – on mail and through social networks – are put in the first category, while those who don't mail you often are in the second. Thankfully, the large chunk of daily emails in the form of Twitter and Facebook updates, find themselves in a separate bulk mail folder. A section called 'Losing Touch' includes mails from people you do not keep in touch with regularly.

Cloze also presents mail in a magazine-like format where you have tiles of previews instead of just headers for each mail. Incredimail, another mail app, does this even better. If you have used news aggregators like Zite, you get the idea. It is a much simpler and more natural way of browsing, especially sifting through bulk mails. The previews make sure you know what the content is at one look, without actually opening the file.

While Google is still the gold standard for email, it has not been able to radically change mail ever since its launch around nine years ago. The other problem with Google is that most of us have exhausted our storage limits on Gmail. Of course, you can buy more storage, but that comes at a steep cost.

SANTOSH

All is not lost, though. Old favourites like Hotmail and Yahoo!, which saw mass migrations once Gmail became the default primary mail for the world's connected, have now started reinventing themselves. Hotmail has changed its look as well as its outlook and is now called Outlook mail. Inspired by the Windows 8 design, this mail service has the neatest interface around. If you want a no-nonsense, ad-free mail that is clean enough to increase your productivity, then Outlook is for you.

Yahoo! has not changed its look much, but now comes with a 'large heart'. If you need to send and receive large files all the time, this is the mail solution for you. As if the ability to send 100 MB files as attachments wasn't enough, Yahoo! has now added cloud storage integration with Dropbox. During a recent telephonic interaction, David McDowell, Senior Director of Product Management for Yahoo! Mail, told me they were striving for a mail service that was faster than at present, and provided a consistent experience across devices.

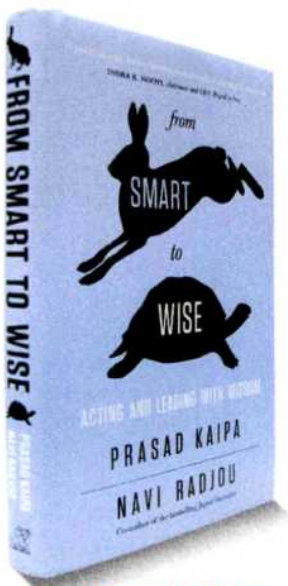
Yahoo! Mail has over 330 million users globally. Over 105 million people access Yahoo! Mail daily, with more than a tenth of them from India. Outlook and Hotmail together have around 420 million users. Gmail, however, is still on top with around 425 million users. And with these one-billion-plus users increasingly dependent on their mobile devices to access mails, don't be surprised if these services completely change tack in tune with the times. It is only a matter of time before easier integration with other web services, unlimited storage and better interfaces become the norm.

Till then, however, you will have to learn to manage your mail account best as you can and stay above water. An easy way to do so is to have separate mail accounts for different uses or profiles. One for communication with the family, one for the office and one just for yourself. Or just a second back-up mail where you keep sending, or CCing, important files. Yes, a problem of plenty, in every sense. ◆

The writer is Associate Editor, Gadgets & Gizmos

Capitalism with a Human Face

Truly wise CEOs find a purpose that transcends personal gain, says this book



From Smart to Wise Acting and Leading With Wisdom
By Prasad Kaipa and Navi Radjou
Random House
Pages: 250; Price: ₹499

If the Jim Collins bestseller *Good to Great* was all about how companies can transit from 'average' to 'great', *From Smart to Wise* is about how business leaders can make a similar leap. Authors Prasad Kaipa and Navi Radjou (who also co-authored *Jugaad Innovation*) argue that while 'smartness' is necessary to succeed in business, it is not sufficient to do so in these complex times. Wise leadership succeeds where smart leadership cannot, they maintain.

So, how does one rise from being a smart leader to a wise one? The first step, according to the book, is to find a noble purpose – which it calls one's 'North Star'. Such a purpose, transcending the self, will enable leaders to apply smartness wisely – instead of for mere personal benefit. It will bring authenticity and ethical clarity to their actions. Thus, for instance, when software giant Microsoft was being bombarded by a series of anti-trust trials at the beginning of this century, its legendary CEO Bill Gates stepped down and became instead its Chief Software Architect and Chairman of the Board. More importantly, he established the Bill & Melinda Gates Foundation and explored how he could use his wealth, smartness and leadership skills for the common good.

Gates's initiative amplified and elevated his smartness, saw him perceived as a wise leader and enabled him to operate on a higher plane, the authors say. Today he is no longer seen as an aggressive and polarising figure who abused monopoly power at Microsoft, but as a righteous and moral figure tackling global problems such as the lack of universal education and the spread of infectious diseases. Microsoft has certainly benefited from this image change.

The authors go a step further and call for combining social consciousness with business performance. Are the two not mutually incompatible? No way. "Take the case of Unilever Chairman Paul Polman," Rajdou told *Business Today* during his recent visit to India. "Polman has said that by 2020 Unilever will double its revenues and halve its environmental impact. This is what we call enlightened self interest."

Wise leaders, Rajdou added, align their actions to their North Star, act boldly and yet prudently, sensitive to the context in which they are working. They maintain their equanimity, rely on their intuition and above all, act with integrity.

The book offers a step-by-step guide to how a leader can make the transition from smart to wise offering examples such as – apart from Gates – Apple's Tim Cook, PepsiCo's Indra Nooyi, Unilever's Polman, Infosys's N.R. Narayana Murthy, Ford's Alan Mulally, Xerox's Ursula Burns and Tata group ex-chief Ratan Tata, to name a few.

The authors could, however, have focused more on the link between wise leadership and corporate performance. In the book, in some cases, this relationship has to be inferred. Also, while there are many examples of successes, instances of how smart leaders failed because they were not wise enough would have added more value.

At a time when the world is grappling with one corporate scandal after another, it is time the board of every company asks its CEO to spell out what his North Star is and how he will align his actions to it. If the authors are to be believed, this is the best oversight possible when it comes to corporate governance. ◆

N. MADHAVAN

Wise leaders align their actions with their North Star, act boldly and yet prudently, sensitive to the context in which they are working

INDIA TODAY GROUP

When did you last receive a gift from a wild dolphin?

Every year, at Monkey Mia Beach in Denham, Australia, for the past 40 years or so the dolphins have been coming for what appears to be a unique annual bonding with humans. Old-timers recollect, years ago at the very same spot, a dolphin had approached a woman with a fish in its mouth and offered it to her. Wonderstruck she didn't know what to do. "Take it, take it!," the others shouted. "Never refuse a gift from a dolphin!"

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New Employment Cell

Cell phones are being increasingly used to access job opportunities. By MANASI MITHEL

Own a smartphone? Want a new job? You can now use the former to look for the latter. Many recruiters have lately begun using mobile technologies to seek out prospective candidates.

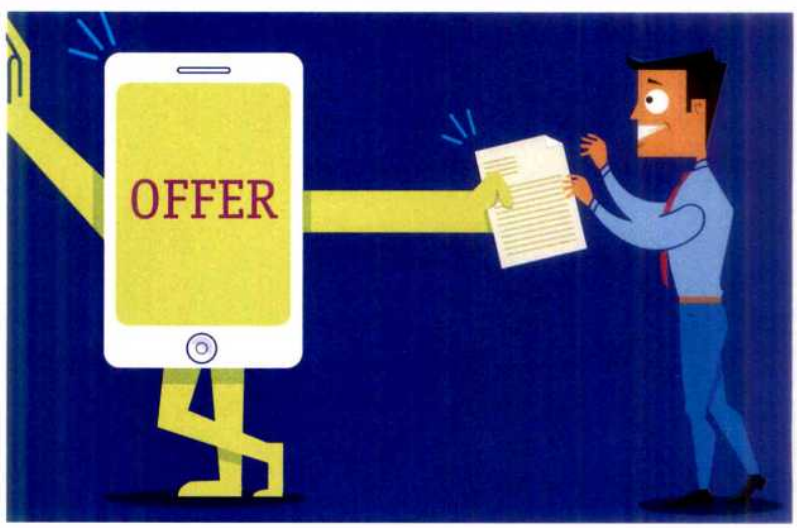
Smartphone penetration in India is still modest, but is expected to rise exponentially soon. Around 120 million have smartphones, while industry estimates maintain this will increase to 250 to 300 million in the next two or three years. "Only around five to eight per cent of smartphone users employ them at present to surf the Net," says Sanjay Modi, the India Managing Director at job portal Monster.com. "But we expect this to grow to around 25 per cent in the next 12 months." And if these users can look up weather forecasts and book movie tickets with their mobiles, why would they not hunt for jobs as well with the same device?

Recruiters are preparing for this in different ways. For one, they have been creating mobile apps to help jobseekers reach them. Monster.com launched its app for jobseekers using Android devices in 2011 and followed it up with one for employers as well. The jobseeker app allows users to search and apply for jobs, while the employer app enables employers to post job openings, read submitted resumes and connect with jobseekers. Both apps are now available on mobiles using the iOS and Windows operating systems. Career networking portal LinkedIn has recently created an app for both Android and iOS-based mobiles. Even a few companies, such as Goldman Sachs, have introduced such apps to reach candidates.

These apps help employers too. "Now I can access all job applications on my phone," says Kartik Swaminathan, Assistant Vice President of HR at drugmaker Wockhardt. "I have every candidate's data at my fingertips."

A Bangalore start-up, Interview Master, has also devised an automated solution with which employers can, through their phones – whenever they need to and no matter where they are – access previous interviews they have conducted of applicants, both in text and video form. "This software saves companies ₹1 crore in time, travel and logistics costs for every 1,000 positions," says Sanjoe Joseph, the company's founder, adding he has 40 companies as clients. And hirings too are taking place using it. "Three senior manager-level positions have been filled using this process," says Swaminathan.

Again, Monster.com has begun holding "virtual career fairs", which employers and candidates access through phones. The last one, in mid-April, saw 12 companies offering 275 jobs and 34,000 applicants responding. "Recruiter and applicant interact with no time lag through chats and video," says Modi. "We replicate the real world career fair online." ◆



SANTOSH

ON THE JOB

WHY SMARTPHONES MATTER TO RECRUITERS

- India will have 250-300 million mobile Internet users by 2016 — Source: Vserv.mobi
- Digital interviewing using 'Interview Master' enabled firms to save ₹1 crore per 1,000 hires
- LinkedIn saw a 27 per cent increase in traffic from mobiles in 2012/13 over previous year

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Assistant Manager
Location: Bangalore
Job ID: 12978570
Description: Responsible for sustainability, carbon foot printing and reporting solutions offered from HSC across Tesco Group.

Freescale Semiconductor
Design Manager/ Engineer
Location: Noida
Job ID: 13074937
Decription: Strong understanding electrical circuit analysis, design and te fundamentals.

UnitedHealth Group
Sr. Manager Transitions
Location: Hyderabad
Job ID: 13046986
Description: BA/BS degree in Accounting, Finance, Business or related field and/or equivalent education and experience.

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Location: Bangalore
Job ID: 12800011
Description: Responsible for a variety human resources programs and policie often encompassing several areas of huma resources.

ABB Limited
Domain Engineer
Location: Bangalore
Job ID: 13043862
Description: Electrical Engineering with 3 plus years of experience in variable speed drives and PLC programming.

NCR Corporation India Pvt. Ltd
Service Account Manager
Location: Bangalore, Mumbai
Job ID: 13224050
Description: Looking for Service Accou Managers having 8 to 13 yrs of experience.

Research In Motion
Director, Channel Accounts
Location: Delhi
Job ID: 13184667
Description: Responsible for developing and deploying RIM's new BlackBerry branded retail strategy across ASIA PACIFIC.

Avtar Career Creators
Head-HR
Location: Kadapa
Job ID: 13130924
Description: Manage the plant HF Industrial Relations, Public Relation Security.

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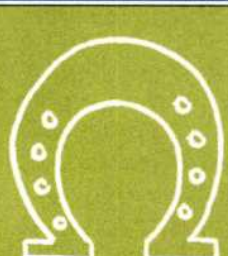

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Description: Hyderabad, Noida, 4-8 years: SAP BPC Consultant.

Cisco Systems India Private Limited
MANAGER - TECHNICAL SERVICES
Location: Pan India
Job ID: 13203079
Description: Manager – Technical Services, SUMMARY: Cisco seeks a Manager of Technical Support to lead teams of Customer Support Engineers for Global Product Support (TAC) etc.

Aequor Information Technologies Pvt Ltd
WebSphere Commerce Administrator
Location: Gurgaon
Job ID: 13226179
Description: 4-5yrs of experience in installation,configuration and administration of WebSphere Commerce.

Omnitech Infosolutions Limited
Software Engineer/ Programmer
Location: Mumbai
Job ID: 12991973
Description: To develop the code in classic asp and dot net.

JSW Steel Limited
ERP, CRM - Functional Consultant
Location: Bellary
Job ID: 11953335
Description: Check ECC master data and correct from APO perspective.

Amdocs Development
Unix Admin
Location: Pune
Job ID: 13258699
Description: Strong inter-personal and communication skills and comfortable in a culturally diverse working environment.

Fiserv
Software Engineer/ Programmer
Location: Noida, Pune
Job ID: 13057379
Description: Candidate who can communicate effectively with peers and internal partners, and will be able to work with minimal supervision.

NVIDIA Corporation
Software Engineer/ Programmer
Location: Pune
Job ID: 13233562
Description: Excellent analytical and problem solving skills.

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Job ID: 12346108
Description: Result oriented candidate with presentable, communication skills is essential.

Thomson Reuters
Sales Consultant
Location: Delhi
Job ID: 13059853
Decription: To create and manage territory development plan and to report results.

Deloitte Consulting India Private Limited
SM&BD - Executive Manager
Location: Hyderabad
Job ID: 12845762
Description: Excellent analytical, problem solving and critical thinking skills.

Value Labs
Presales Consultant
Location: Hyderabad
Job ID: 13179963
Description: Ensure that Sales and Delive receive support as they request.

Red Hat
Area/ Territory Sales Manager
Location: Bangalore
Job ID: 13053685
Description: Seeking a Senior Direct Sales Account Manager to interface with internal and external experts to support customers and uses specialized knowledge to prospect, qualify, negotiate, and close opportunities.

Manokam
Sales Manager
Location: Ahmedabad
Job ID: 13166859
Description: Looking for sales professior having minimum 10 years of exposure compounding, plastic industry for o German based MNC Client.

Unity Infraprojects Ltd
Marketing Executive
Location: Delhi, Hyderabad
Job ID: 12989797
Description: Co-ordinate with the client and get the required information.

ABC Consultants Private Limited
Business Development Manager
Location: Bangalore
Job ID: 13045615
Description: Looking for profession having good networking with architect builders, schools & universities.

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Location: Mumbai
Job ID: 13240154
Description: Ensuring IT security measure in place, Controlling and protecting the information assets.

WNS Global Services Pvt. Ltd.
Analyst-Financial Research
Location: Gurgaon
Job ID: 13077451
Decription: Working on Industry / company research, market saturation study, industry bench-marking and trend analysis among others.

Target Corporation India Private Limited
Head / GM - Finance
Location: Bangalore
Job ID: 13021076
Description: Work closely with senior management in India and Finance teams in Minneapolis.

Oracle India Pvt Ltd
Accountant/Sr Accountant
Location: Bangalore
Job ID: 12834516
Description: Maintain general accounting systems, policies, and procedures to ensure that proper information is reported in accordance with Generally Accepted Accounting Principles.

Juniper Networks Inc.
Finance Assistant
Location: Bangalore
Job ID: 13220846
Description: Support company's U.S. based tax team for U.S. corporate income tax compliance.

Robert Bosch Engineering and Business Solutions Limited
Accountant
Location: Bangalore
Job ID: 13007078
Description: Hands on Experience in handling Indian Accounting System (Receivables, Payables, General Ledger, etc).

Gebbs Software International Ltd.
Team Leader / Sr. Team Leader - Accounts Receivable
Location: Mumbai
Job ID: 11688006
Description: The job involves managing and guiding a team of AR associates who will be responsible for analysis of receivables due from healthcare insurance companies etc.

ACS, Inc.
Operations Manager
Location: Cochin / Kochi / Ernakulam
Job ID: 13237371
Description: Performance management for higher performance and regular reviews with the teams.

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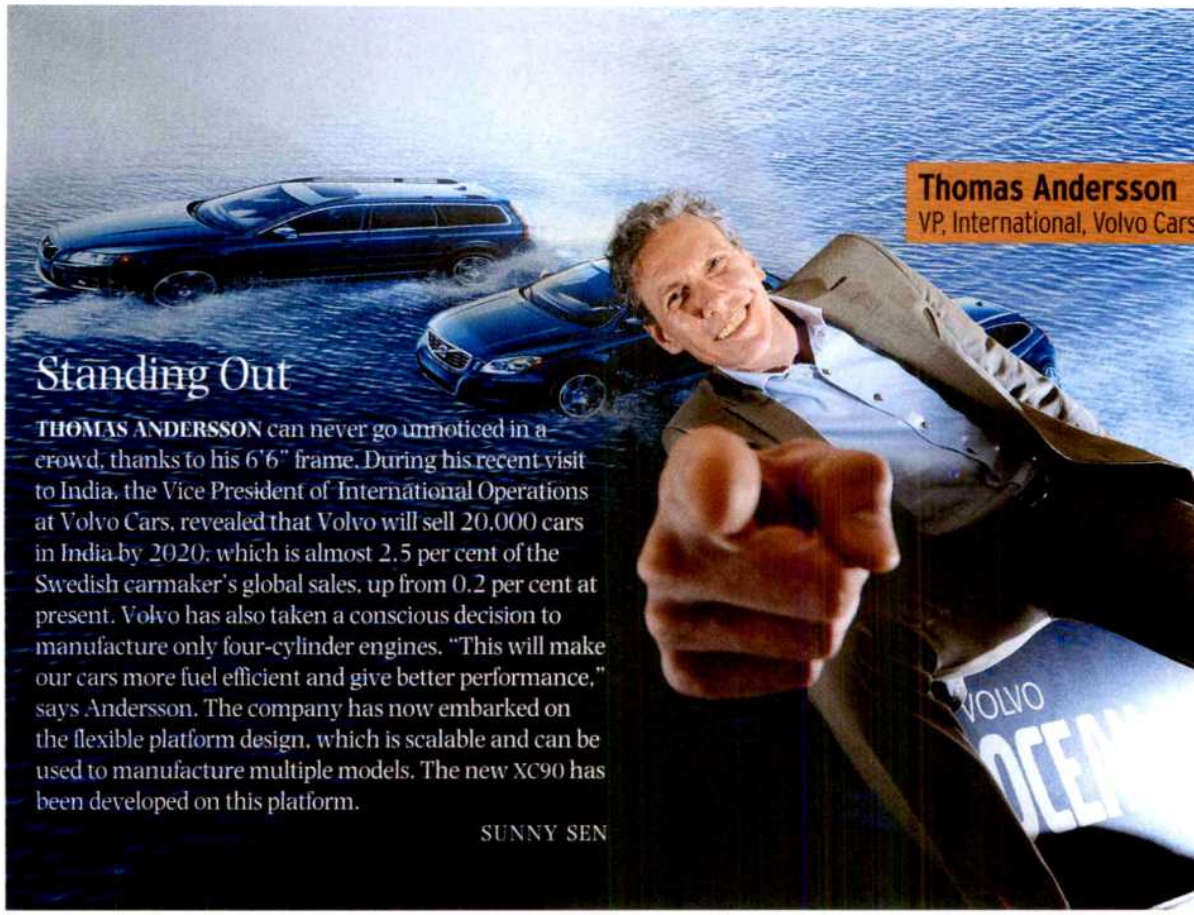
Shinya Ejima
Chief Representative, Japan International Cooperation Agency

Funding Progress

It is not only Metro Man E. Sreedharan Delhi residents should thank for the metro that has transformed the capital. Japanese taxpayers deserve their gratitude as well. The Japanese government helped the metro's construction through concessional loans, channelled through the Japan International Cooperation Agency (JICA). The agency's Chief Representative **SHINYA EJIMA**'s face reflects his quiet pride as he talks about the metro and Japan's role in helping build metros in other Indian cities as well, such as Chennai and Bangalore. "Japan is the largest bilateral donor to India," says Ejima, 53. JICA's concessional loans to India have financed a range of projects from public transportation to water supply, but it is the metros that excite Ejima the most. "They provide safe and punctual transportation," he says. The metros, however, will eventually be dwarfed by another transformational project JICA oversees – the rail freight corridor linking Delhi and Mumbai, still in the making. Ejima, who feels India is perhaps the most exciting country he has known, says he found his trip to Varanasi stirring. "The environment around Ganga affected me very much," he says.

SANJIV SHANKARAN



SHEKHAR GHOSH/WWW.INDIATODAYIMAGES.COM

Standing Out

THOMAS ANDERSSON can never go unnoticed in a crowd, thanks to his 6'6" frame. During his recent visit to India, the Vice President of International Operations at Volvo Cars, revealed that Volvo will sell 20,000 cars in India by 2020, which is almost 2.5 per cent of the Swedish carmaker's global sales, up from 0.2 per cent at present. Volvo has also taken a conscious decision to manufacture only four-cylinder engines. "This will make our cars more fuel efficient and give better performance," says Andersson. The company has now embarked on the flexible platform design, which is scalable and can be used to manufacture multiple models. The new XC90 has been developed on this platform.

SUNNY SEN

Top-class Connection

After Sunil Dutt quit as its Managing Director in India in March, just after the launch of its flagship Z10 smartphone, BlackBerry did not look far to find his replacement. Another Sunil, **SUNIL LALVANI**, the head of enterprise sales in the company, was chosen to step into Dutt's shoes. Lalvani's immediate task will be the launch of the Q10, the first BlackBerry smartphone on the '10' platform to feature BlackBerry's QWERTY physical keyboard. (The Z10 only has a touchscreen.) "Even today many die-hard QWERTY users swear by the keyboard experience of their BlackBerrys," says Lalvani, an electronics engineer with a post graduate degree in marketing management and years of experience with companies like Cisco and Nokia. "These are exciting times to be a part of the smartphone industry. The market has headroom to grow. At the same time, retention of customers is possible only through continuous innovation, staying closely aligned to the needs of the end user, and differentiating one's offerings in this fiercely competitive market."

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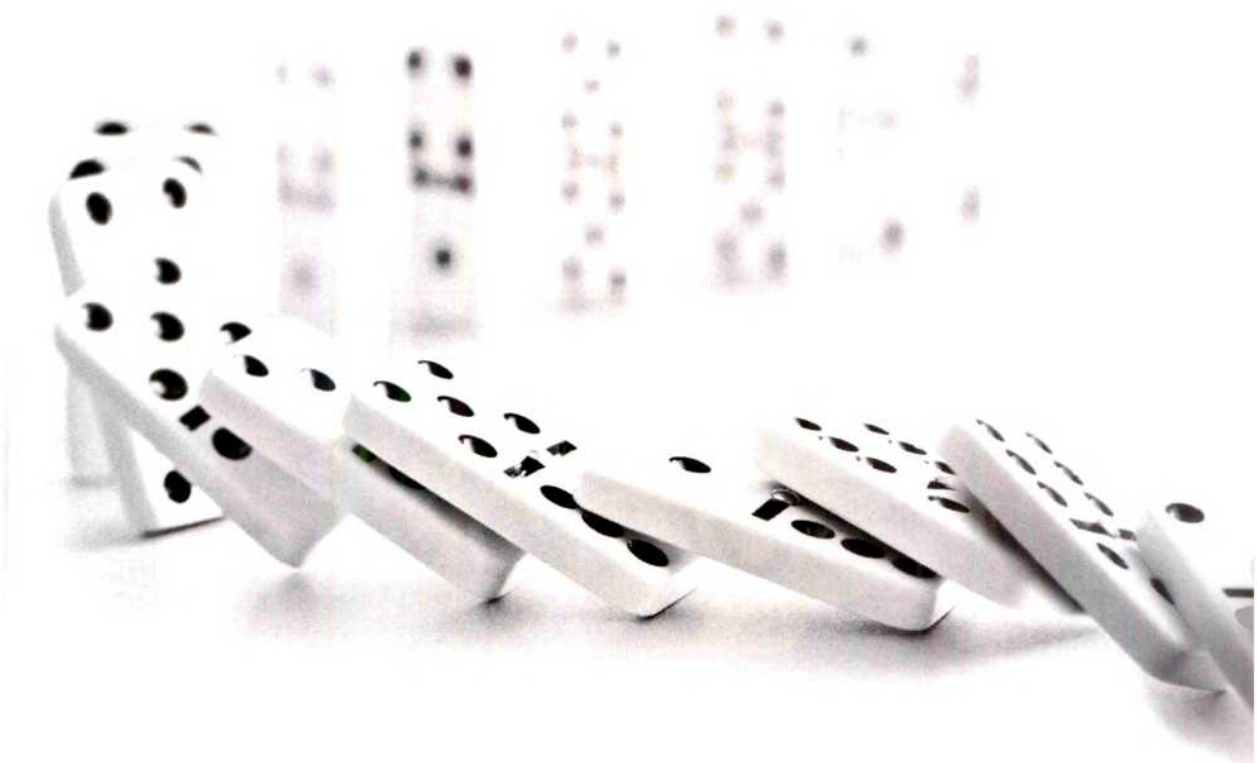

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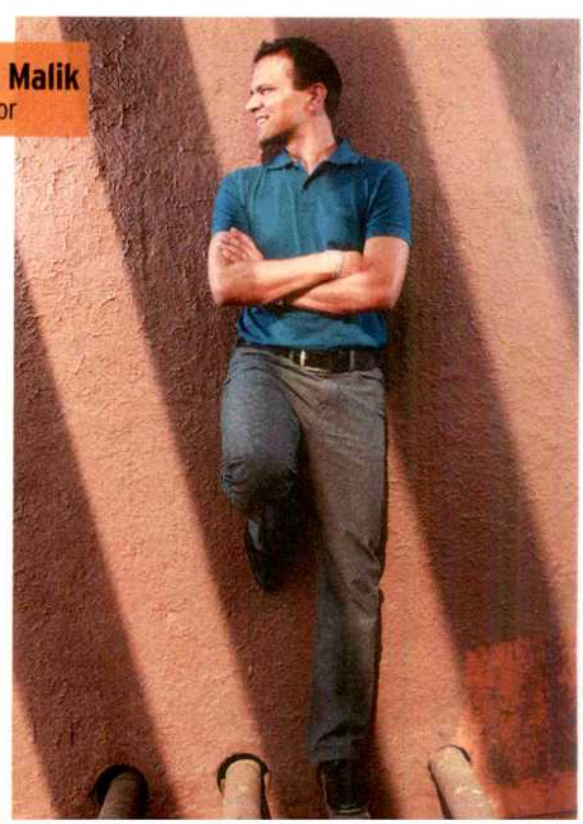
Thirsty for More

JAYANTI CHAUHAN, daughter of Ramesh Chauhan, the 72-year-old Chairman of Bisleri, has now joined her father's company as a director. Bisleri is almost synonymous with bottled water, but Jayanti wants not only to grow her father's business, but get into other businesses too. She feels that since Bisleri is not yet into the larger food and beverages category, it has the flexibility to extend the brand into new verticals. "Bisleri already has a strong equity in the market, and I am confident that whichever category I take the brand into, it will attract consumers," she says. The company has set up 30 'Bisleri Shoppes' in Mumbai, which sell larger packs of the brand and will also act as distribution hubs. Jayanti maintains she is far more aggressive than her father. "But I never take business decisions without asking him," she adds.

AJITA SHASHIDHAR



ADITYA KAPOOR/www.indiatodayimages.co

Ambitious Objectives

In 2003, five years into operations as a senior executive of TIW (now Vodafone), **YOGESH MALIK** realised something was wrong. The company had a 2.3 per cent market share but was not growing. Malik felt it was because he was in a rut and unable to refresh his thinking. In his new role as the CEO of telecom operator Uninor, the Gurgaon-based mobile network operator, he wants to institutionalise a culture where employees try to innovate on a daily basis. His immediate target is profitable growth for the company, making Uninor debt-free and breaking even by the year-end in all the six circles – with a total subscriber base of 31.7 million – it operates in. "For a sustainable business, you need to have profitable growth," says Malik. "That is unique to Uninor."

SUNNY SEN

AMEERA SHAH

MD & CEO, Metropolis Healthcare

My first role model

Mahatma Gandhi

My first guru

My kathak teacher, Mrs Shrestha

My first job

A vegetable 'reseller', at the age of six. I would steal veggies from our refrigerator, don a nine-yard Maharashtrian sari and resell them to any willing buyer. I was a natural Baniya entrepreneur

My first boss

My father. During summer vacations, I would go to his pathology lab and be there eight to 10 hours a day. I wanted to fit in with the staff so I too called him, 'Sir'

My first promotion

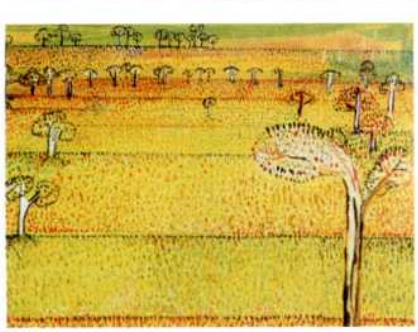
In school, when I was elected captain. I was thrilled because despite my campaigning for my competitor, I was the unanimous choice of my peers

My first disappointment

My internship at Goldman Sachs in New York. I didn't feel passionate about the work and didn't have enough friends there

As told to Vivan Mehra

VIVAN MEHRA/www.indiatodayimages.com



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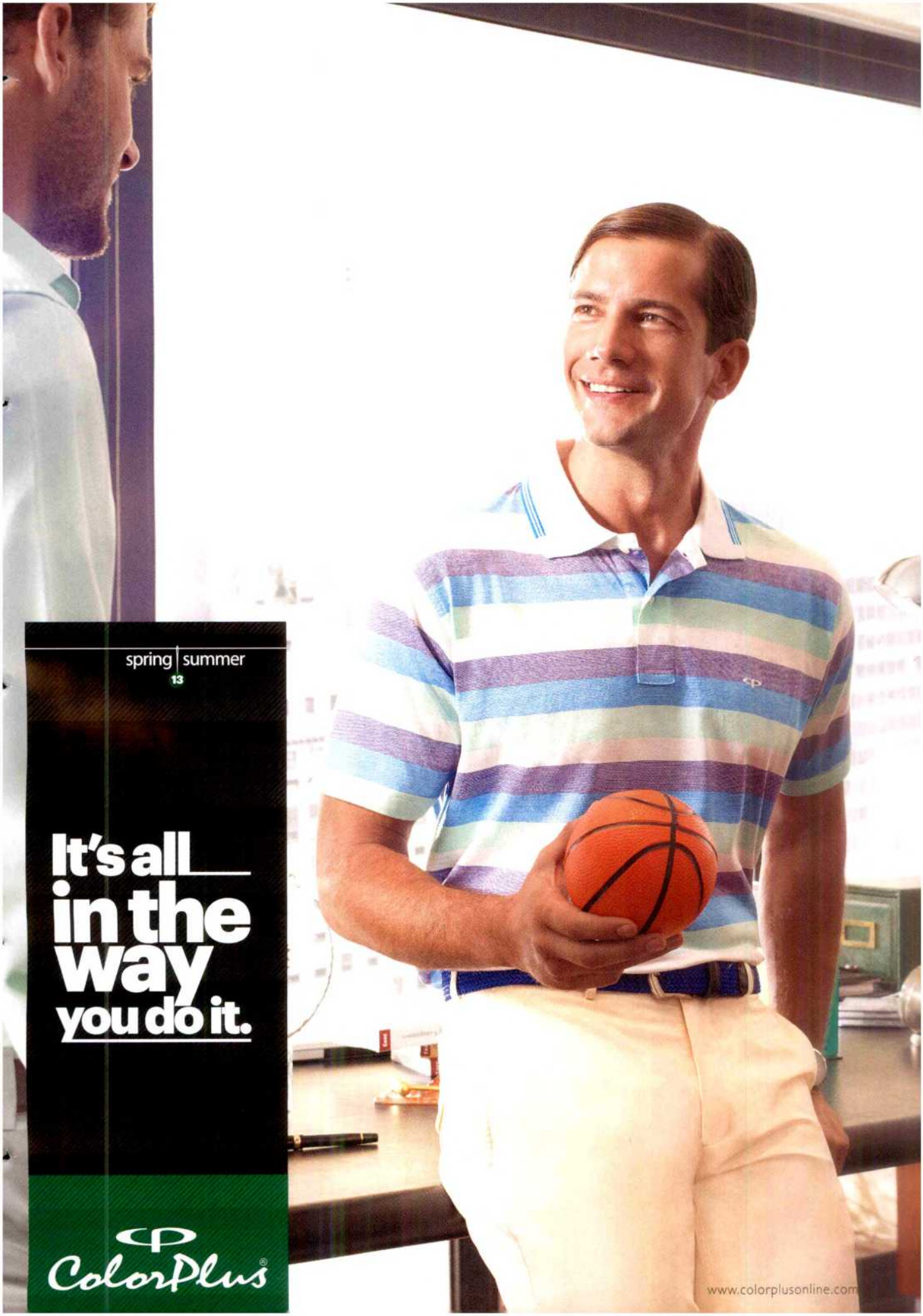
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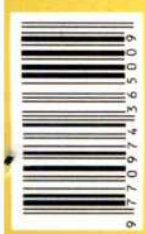
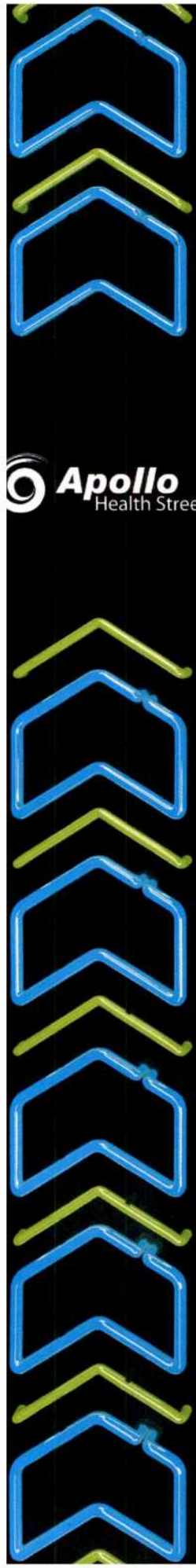


INDIA TODAY GROUP

HOW Google WILL CHANGE THE WORLD AGAIN



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From the Managing Editor

Global gold prices have acted very unusually in recent years. Since 2009, nominal and inflation-adjusted prices of gold have moved in tandem – something that has never happened in the 100 years we have data for. The prices have also risen sharply: nearly doubling from $870 an ounce in 2008 to $1,655 in 2012 (before dropping to the current $1,365 levels). What really happened? A bunch of uneasy central bankers, spooked by the September 2008 financial meltdown and worries over inflation, gave into their fears. Central banks, which were net sellers of the metal for 11 years until 2008, started buying like there was no tomorrow. India did not escape the paranoia and the gold ingots at the Reserve Bank of India increased by about half. RBI data from July 2011, the latest available, show it holds some 560 tonnes of the metal. But what a bad call to buy it was. Fears of hyper-inflation were just that: fears. Gold prices are tracking softening global inflation and a fiscally-stressed Cyprus is keeping the bullion markets jittery. But falling prices may not bring cheer to an India dealing with a severe current account deficit, as Senior Editor Sanjiv Shankaran explains in a pithy analysis on page 16 of an economy caught in the vortex of high gold prices, flaccid exports and a weak rupee. Unless, gold prices fall faster – like in a repeat of the 1980-83 crash – than the metal's imports grow, Finance Minister P. Chidambaram will be selling the Indian promise to foreign investors.

Rising gold prices have knocked more than a few percentage points off India's financial savings but the mutual funds industry seems to have taken it on the chin and grown its assets by 19 per cent in 2012/13. In our annual listing of best mutual funds, we look at the fund managers who made that happen. This is the second time we are running this listing in partnership with Value Research, whose CEO Dhirendra Kumar captures how our study stands out. Investors should ask "Which fund should I invest in," he says, and focus on those that match their needs. Keeping to that, we classified the funds universe into categories based on risk appetite and came up with the winners. Their managers were profiled by Dipak Mondal and Tanvi Varma, associate editors at *Money Today*, a *BT* sister publication. Their domain expertise is reflected in their stories from page 62.

In the summer of 2000, I met K. Ram Shriram at a tech conference. In a crowded media room, Ram, a freshly-minted venture capitalist, grabbed a keyboard and banged six letters into a web browser window: Google. Like most people around, I used Yahoo! or AltaVista then. "What do you want to search," Ram asked, with his eyes beady and grin wide. "Handel's music," was the toughest I could come up with. By Internet speeds of the time, the results were instantaneous and just what I wanted: a bunch of baroque music sites, one which I used for at least five years after. Google, a company Ram backed and still sits on the board of, today is the definitive tech company. It doesn't call itself a media company but eclipses WPP, the world's biggest advertising company, three times by revenues. Google is transforming itself as we speak and redefining the search and the Internet ecosystem. It is pushing into new areas such as speech recognition, mobile ads, video search and music, even as it expands exponentially its core search function and its Android and Chrome operating systems. Read on page 46 my take on a company so enterprising that its success could see it run into anti-trust regulators even if it plays by the book.

There are two other interesting reads this issue that you will be cross if I don't point you to them: how electricity tariffs are rising unusually close to election season on page 26 and Nissan's out-of-sync ambitions in India on page 82. Enjoy.

Josey Puliyenthuruthel

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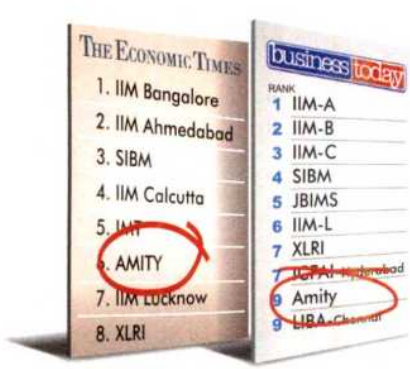

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No End to Greed

Your cover story on financial frauds *Unsafe Deposit* (May 26) was interesting. There are a large number of small-time investors who seem to gravitate towards dubious corporates with their savings, almost as if they want to be cheated. As Ezra Solomon, the great authority on investment management has said: "Higher return is proportional to higher risk." If anyone wants returns higher than normal on his investments – as was the case with the clients of the "cheat funds" – it will not be surprising if he ultimately suffers major losses.

S.K. Sethi, *Insurance Foundation of India*

Best of Global Trade

The package on the oldest multinationals in India – why they came and how they succeeded (*Staying Power*, May 26) – was worth reading. The details about some of the leading septuagenarian MNCs in India, including top global business houses, were quite informative. The chosen companies represent the very best of global trade in India. As the country moves to become one of the leaders of global business, let us hope the future of these MNCs remains bright.

Abhinav P., *New Delhi*

Pink Tourism on the Upswing

Kudos to *Business Today* for carrying a feature on gay tourism. (*First Blush*, May 26). Thanks to Indian pink-tour operators, the LGBT community across the world wants to visit India. This kind of tourism is becoming a flourishing business. However, it is not very clear how the needs of LGBT tourists are all that different from those of 'straight' tourists – why should their sexual orientation make a difference while travelling?

B.S. Acharya, *Berhampur*

Fixing the Broken Image

The article *Is Brand IIT Broken?* (May 12) deserves a thumbs up. The writer has diagnosed the problems of the IITs and dissected the areas which need attention. Now it is left to the HRD ministry to make the necessary medical interventions, fix the broken image and offer post-surgery care. Meanwhile, the IITs should swallow the bitter pills required and be prepared to go under the knife! Wishing the IITs a speedy recovery.

Jennifer Difiva, *Chennai*

Corrections

The report on Castrol (*Sticking to India*, May 26, Page 70) says Ram Savoor was former chairman of Castrol India. He is a former managing director.

A photo accompanying the same report (Page 69) has the caption: "The first Castrol India team". It should have read "The first Indian management team at Castrol India".

The first page of the report *The Oldest Multinationals in India* (May 26, Page 59) misspells the company name 'Philips India'.

The review of the book *From Smart to Wise: Acting and Leading with Wisdom* (Page 110) spells the name of co-author Navi Radjou in two different ways. 'Navi Radjou' is the correct spelling.

The errors are regretted.

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Law ministry changes stance, favours settlement with Vodafone.
It is government's trick to encourage foreign investment and please giants like Vodafone at the cost of revenue recovery. So it is high time the government does what suits best the interests of the country.
Shobhit Singh

Forex reserves slump by $2.06 billion to $294.31 billion.
Great news. Hope it will lead to upgradation of Indian economy by various credit institutes.
Ankit Kumar

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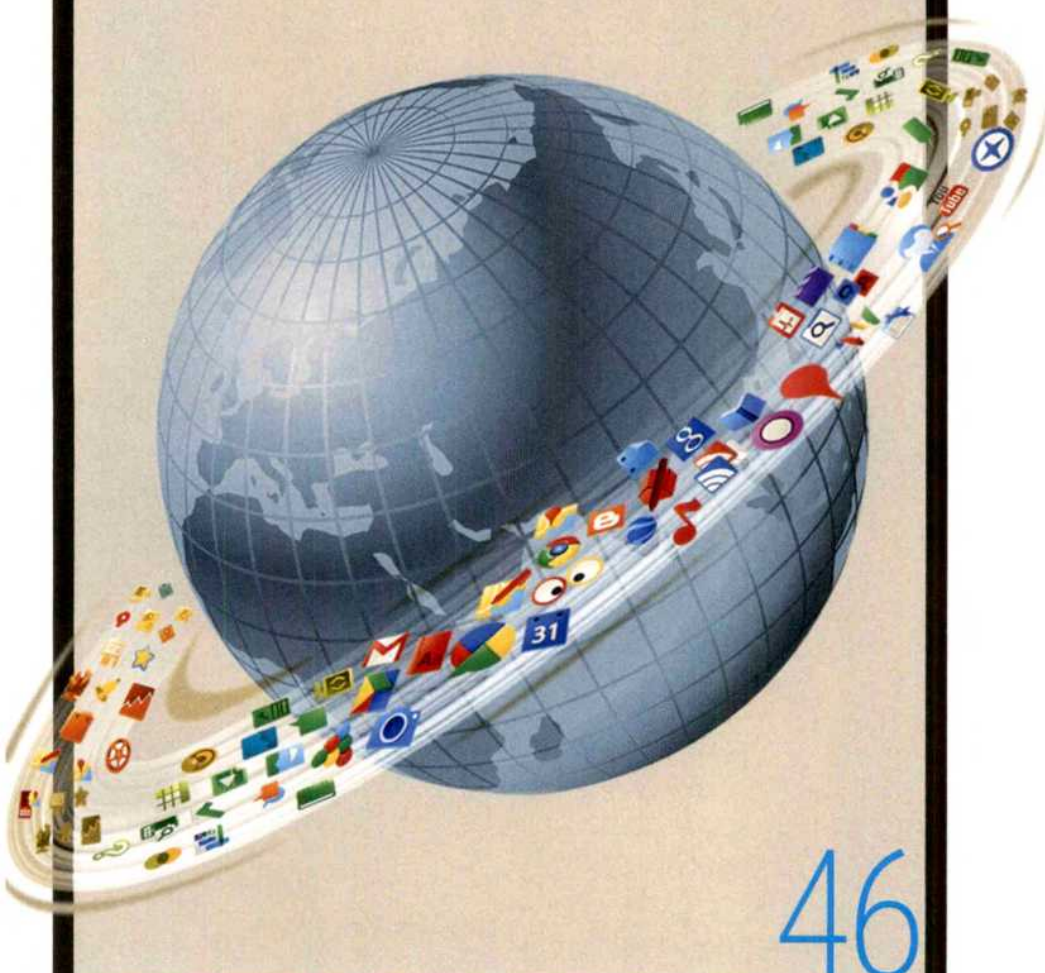

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PARVEEN NEGI

Flying high, again: Air India's Boeing 787 Dreamliners have taken off again after staying grounded for four months. The entire board of Air India was on the first flight to Kolkata. With the use of the right aircraft Air India has managed to cut down its loss-making routes from 69 per cent to 25 per cent in 2012/13, Dreamliners are set to further help it improve its performance.

Corporate

In the **Subrata Roy-led Sahara Group** case involving over ₹24,000 crore allegedly raised through "various illegalities", market regulator SEBI has begun the process of refunding individual investors. But money is being refunded only in cases where SEBI does not find any **'multiplicity' during its verification process.** Multiplicity refers to the same investor being recorded with different addresses, or many investors having the same address. Many such cases have been found.

A negotiated settlement of the government's tax dispute with British telecom major Vodafone is on the cards. Law Minister Kapil Sibal said an out-of-court settlement with Vodafone would have to be placed before Parliament as the legislature had passed a law on the tax demand.

Tata Group flagship Tata Steel has announced it is making a non-cash impairment of $1.6 billion for 2012/13, after considering the difficult external economic environment and macroeconomic conditions, especially in Europe, and the demand-supply imbalance of the global steel industry.

Drug major **Ranbaxy Laboratories** has pleaded guilty to felony charges related to drug safety and will pay **$500 million** in fines under the settlement agreement with the US Department of Justice. **This is the largest penalty slapped on any generic drug manufacturer in US history.** This concludes the case involving allegations that drugs from Ranbaxy's two Indian plants did not meet US specifications, but that false claims were submitted to US government. Dinesh Thakur, former Ranbaxy director and global head of research information & portfolio management, will get $48.6 million as the whistleblower in the case.

The world of cricket – and the IPL6 season currently underway – suffered a stunning blow with the **arrest of three Rajasthan Royal players – S. Sreesanth, Ankeeth Chavan and Ajit Chandila** – for alleged **spot fixing.**

BlackBerry has announced plans to offer its popular instant messaging system on iPhone and Android devices. The BlackBerry Messaging System will be available as a text-only application for the competing smartphones in the next few months before adding a voice feature. BlackBerry has lost market share to Apple's iPhone and Samsung's Galaxy devices powered by the Android operating system.

Samsung has successfully tested superfast fifth-generation (5G) wireless technology. Faster than 4G, it will enable users to download an entire movie in one second. The catch: the new technology will be not be ready for the market before 2020.

Economy

Headline inflation fell to 4.89 per cent in April, its lowest since November 2009. This raises hopes that the Reserve Bank of India Governor D. Subbarao **may further ease monetary policy.** The rate cut will help revive economic growth rate that fell to **five per cent last financial year**, the lowest in a decade.

India is set to start the long-awaited sale of **inflation-linked government bonds in June.** The Reserve Bank of India will sell ₹1,000-2,000 crore of such bonds linked to the wholesale price index (WPI) every month. The first tranche will be auctioned on June 4 to both domestic and foreign institutional investors. The central bank plans to raise **₹12,000-15,000 crore** by the end of the fiscal year in March 2014.

Standard & Poor's has threatened to **downgrade India's rating to 'junk' status if it fails to pursue reforms.** The ratings agency retained India's sovereign rating at 'BBB-' with a negative outlook, citing high fiscal and current account deficits. S&P said there is at least a one-in-three likelihood of a downgrade within 12 months. The government has shrugged off the threat.

₹54

The cost of the Rotavirus vaccine, India's first vaccine under public-private partnership. The indigenous vaccine to prevent rotavirus diarrhoea that claims the lives of about 100,000 children a year will hit the market soon. It was developed by the Department of Biotechnology and Bharat Biotech, after 18 years of research.

$2 trillion

Estimated amount of soiled paper currency disposed of by the Reserve Bank of India every year. On average, one out of five paper notes in circulation gets disposed of every year. The number of such soiled currency bills stood at over 13 billion units in 2011/12.

Markets

Unilever's $5.4 billion open offer to buy 22.52 per cent stake in its Indian subsidiary, Hindustan Unilever (HUL) is set to begin on June 21. The open offer will be the fifth-largest India inbound M&A transaction till date. Currently, Unilever has a stake of 52.48 per cent in HUL. It will pay ₹600 a share. The open offer will close on July 4.

The RBI has eased the norms for **external commercial borrowings for the aviation and housing sectors.** There is, however, no change in the overall ceiling of $40 billion for ECBs. An estimated **$1 trillion of investment** is required by the infrastructure sector to meet the targets of the 12th Five-Year Plan.

Coming Up

- The southwest monsoon is likely to hit Kerala on June 3. The timely arrival of the monsoon portends better farm output and an opportunity to rein in food inflation.

- SEBI is looking to frame a 'trade annulment policy' to cancel freak trade orders. The policy will look at safeguarding broader market interests from freak orders executed erroneously, such as 'fast-finger trades' or punching errors, as also trade orders entered intentionally by manipulators to sabotage market sentiment. There have been quite a few such cases in the past.

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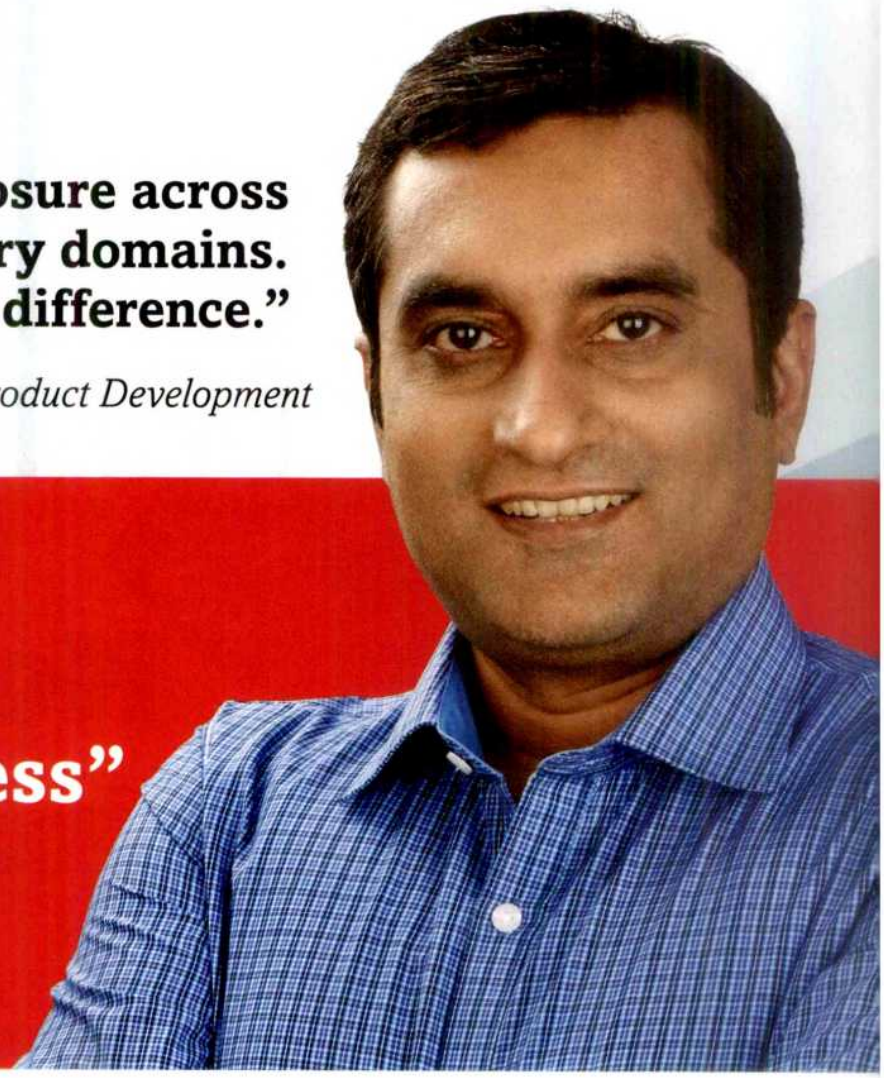
Sugata Dutta – Manager, Product Development



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SRISTI

No Entry

A new US immigration reforms bill threatens Indian IT but could also hit the US's already sputtering local economy.

By **GOUTAM DAS**

Some Indian IT executives would rather not talk about it, claiming the 844-page document requires careful reading first. Others speak of it in hushed, apprehensive tones, saying they will need to "engage" – a euphemism for lobby – with the US government to get portions of it amended. Which is putting it mildly – at first glance, the document looks like a well-engineered plot to kill Indian IT.

The Border Security, Economic Opportunity, and Immigration Modernization Act, introduced by eight US senators – now popularly called the 'Gang of Eight' – on April 17, could seriously disrupt the operations of Indian IT services companies in the US if it were to go through. It would force these companies to change their business models almost overnight, jack up expenses and hand over key competitive advantages to their American rivals such as IBM and Accenture.

The US is the primary revenue earner for Indian IT. For more than two decades, Indian IT companies have been contracted by every sector in the US from large banks to retailers to develop and maintain their IT applications from offshore locations at a fraction of the cost it would take to do the same job in the US.

The clauses in the new bill can now change this model dramatically. Here's a sampling. The bill harps on the touchy

NARROWING THE ENTRANCE

The immigration bill's proposals and their implications

PROPOSAL	IMPLICATION
Companies with more than 15% of their US workforce on H-1B visas to be **restricted from placing workers at client sites**	**Changes in onsite operational model** for Indian companies since all of them have far more than 15 per cent on H-1Bs
The proportion of H-1B and L-1 visa holders in a company **should not be more than 50% of its US workforce**	It will mean **higher costs on more local hiring**, lower onsite utilisation and margin hits
Visa processing fees to be **raised** from around **$2,500 to $5,000-10,000** per application	**Higher costs,** will hit margins
Companies must **pay higher** minimum wages	**Higher costs**

Source: Kotak Institutional Equities and BT research

issue of H-1B visas – a non-immigrant visa that is extensively employed by Indian IT companies to send engineers on short-term work to the US. Its use has increasingly come under scrutiny in recent years, particularly following the economic recession from 2008. Some senators have alleged the H-1B visa has been abused to replace Americans in jobs. The new bill decrees that 'H-1B dependent' employers cannot deploy engineers possessing H-1B visas at client locations. And who is an H-1B dependant employer? Any company with more than 15 per cent of its employees on H-1B visas. All Indian companies are H-1B dependent, some employing up to 95 per cent of their US workforce on such visas.

"If this is the case, it would challenge the fundamentals of the current onsite operational model of Indian IT companies. These companies do not have large centres of their own and typically deploy their resources at client sites as contractors," Kawaljeet Saluja, analyst with Kotak Institutional Equities, wrote in a report.

"You will have an uneven playing field because IBM and Accenture will still be able to get a guy on H-1B from India and place him in the US for the same job," says Krishnakumar Natarajan, CEO of mid-tier IT services company Mindtree and the Chairman of industry lobby NASSCOM.

Another proposal seeks to hike visa fees. A third wants to limit the proportion of H-1B and L-1 visas (another kind of non-immigrant visa) granted to 50 per cent of a company's US-stationed employees. Considering that most Indian companies employ more than 80 per cent of their US workforce on such visas, they will need to immediately start hiring locals to achieve the mandated 50:50 ratio. This would spike their wage bills as local resources are more expensive.

The Indian IT industry distinctly feels it has been "singled out" in a bill that also addresses much larger issues around illegal immigration, border security and family reunification. Outsourcing has been under attack for many years now, but this time, the chances of the bill going through are high since it is a bipartisan bill brought with immaculate timing. The US economy has been slow to recover and unemployment is still high at well over seven per cent.

But there is a catch. Unemployment in the computer and mathematics-related occupations is very low at three per cent and all American companies are struggling to find local engineers. The bill, if passed, could also have unpleasant side effects for the US too. Many experts argue that it will end up stalling the American economy because of the dearth of local talent. "The problem is there are not enough replacements, the US economy will shut down," said Gordon Coburn, President of Cognizant, during the company's analyst call post its quarterly earnings release on May 8.

So how should Indian IT respond? NASSCOM has intensified lobbying efforts, hoping to get some of the clauses either dropped or negotiated. "Our first point to lawmakers is that there will unintended consequences of the bill impacting the United States adversely. They haven't realised this," says Som Mittal, President of Nasscom.

Perhaps there is a silver lining in all of this. It gives Indian IT firms a chance to become truly 'multi-national'. "Diversity is important for globalising a company. Indian IT companies claim they have people of 15 nationalities employed, but if you look at the real percentage of foreign hires, it could be less than one per cent. The bill will force companies to look for talent locally and help Indian companies globalise," says Pradeep Udhas, Partner and Head of IT-ITES at advisory company KPMG. ◆

Yellow Peril

India's gold imports are starting to weigh down the economy. But the buyers have their reasons. By SANJIV SHANKARAN

IN THE LAST FEW YEARS, RISING GOLD IMPORTS COINCIDED WITH A RISE IN THE METAL'S PRICE AND A WEAKENING OF THE RUPEE, WIDENING THE CURRENT ACCOUNT DEFICIT

The numbers tell a story. India's share of world trade is less than two per cent and makes up less than six per cent of the global economy. Yet it accounts for 25 per cent of the world's gold demand. Indeed, surging gold demand is fast becoming a problem for policy makers as imports of the yellow metal are beginning to weigh down the economy.

This was evident when the current fiscal year's first foreign trade numbers were announced on May 13. April's trade deficit – the excess of merchandise imports over exports – was $17.7 billion, higher by 26.4 per cent over the year-ago period, mainly on account of an increase in gold imports. The data knocked 430.65 points off the Bombay Stock Exchange Sensitive Index (BSE Sensex) – the biggest intraday fall in a year.

India's love affair with gold is not new. However, what has happened over the last few years is that rising gold imports have coincided with a rise in its prices and a weakening of the rupee against the dollar. The combined impact has served to widen the current account deficit (CAD).

CAD represents the difference between India's imports of goods and services and its exports plus remittances by Indians living abroad. One way of looking at it is that India doesn't earn enough in foreign exchange to pay for imports such as oil and fertilizers. The excess of imports over exports, or the CAD, is usually covered by foreign investors bringing money into India or by dipping into the country's forex reserves.

The Reserve Bank of India (RBI) thinks a CAD of 2.5 per cent of the gross domestic product (GDP) is sustainable. Against this, India's CAD in 2011/12 was 4.2 per cent of GDP and in the last quarter for which data is available, October-December 2012, it was 6.7 per cent of GDP. The greater the gap between the sustainable CAD level and the actual figure, the more vulnerable the economy is to adverse global developments which could suck out foreign investment.

A closer analysis reveals that a few years

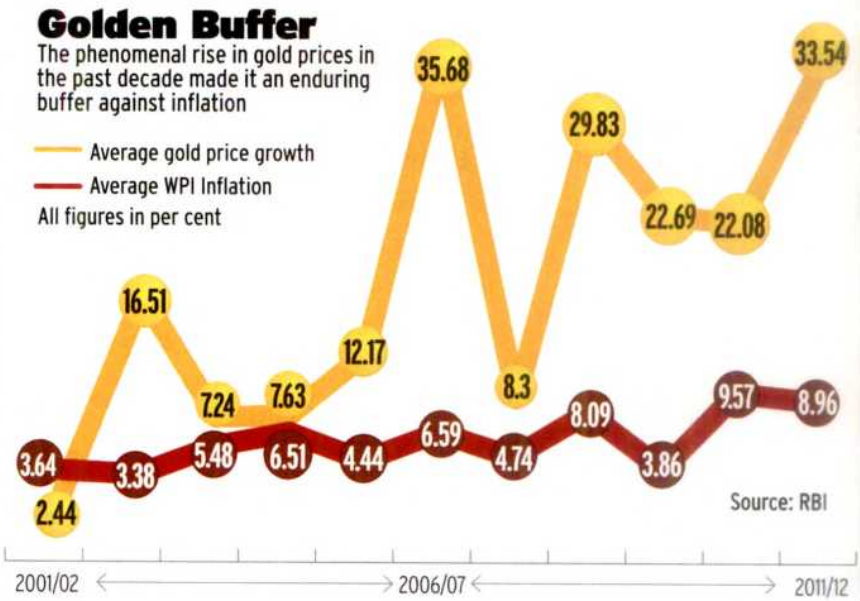
of high inflation and loose government finances have together created conditions that widened the CAD. Inflation, for instance, made it tougher for exporters to compete and large government subsidies on fuel increased oil imports. Gold purchases, in this context, are a symptom rather than a cause of India's CAD problem. For instance, an RBI group set up to study gold loans traced the root of the problem to inflation. "The group recognises that several studies have empirically validated that gold can be regarded as a long-run inflation hedge," the February report said.

How big an impact does gold have on the CAD? Data with the RBI shows gold was responsible for 20 per cent of the trade deficit between fiscal years 2007 and 2009. Subsequently, in the next two years, with inflation raging, that number rose to 30 per cent of the trade deficit.

"We can't ban gold import. We have to compete with it," said the finance ministry's Chief Economic Advisor, Raghuram G. Rajan, on the eve of the recent union budget. He made good his promise – on May 16 the finance ministry said inflation-indexed bonds would be introduced within four months. The ministry hopes this will be the first of some financial products which can compete with gold and lower imports.

Remove the impact of the exchange rate and international price trends, India's annual consumption of oil and gold in volume terms does not seem to be out of sync with the economy's performance. Gold demand between 2000/01 and 2011/12 increased 2.3 times to 1,079 tonnes and crude imports increased 2.3 times as well to 171.7 million tonnes. Over the same period, the economy's size grew 4.13 times to ₹89.74 trillion.

Other than its impact on the CAD, household investment in gold has come at the expense of financial savings. This has hurt companies trying to raise money to expand business. From placing about 55 per cent of their total savings into financial instruments in 1990s, households were willing to direct just 36 per cent of their savings there in 2011/12.



Given that the worsening CAD is the result of inherent weaknesses in the economy, finance ministry officials tend to be unmoved by a few weeks of falling oil or gold prices. It is the quantum of the deficit to be financed that the ministry cares about, says an official. India had to finance a CAD of $78 billion in 2011/12, an exponential jump from $9.5 billion in 2006/07. India's CAD in the near future is likely to be in the $80 billion range, the official adds, making it imperative for the government to constantly woo foreign investors. On May 15, Finance Minister P.Chidambaram left for a five-day tour of Europe and West Asia to meet potential investors, his third such trip this year.

"Capital flows will depend on global events," says Samiran Chakraborty, Managing Director and Head of Research, Standard Chartered Bank, explaining that rather than India's growth rate, foreign portfolio investors are likely to be more influenced by the actions of central banks, such as US Federal Reserve, when they make allocations to India.

Chakraborty remains upbeat on capital flows. "On CAD, we are not sensing much, but are much more positive on capital flows," he says. ◆

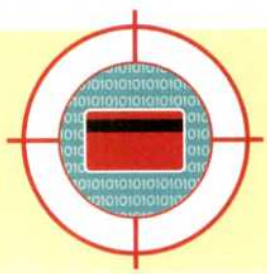
The Great Bank Heist

It is a plot Hollywood producers would die to buy the rights to. In a global operation, criminals planned and pulled off a $45 million heist from ATM outlets using the Internet instead of guns.

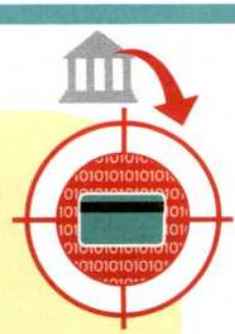
Text by GOUTAM DAS
Graphic by SANTOSH KUSHWAHA

1

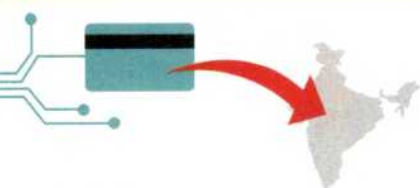
Between October and December 2012, the perpetrators hacked into the computer networks of credit card processing companies, one of them based in India.



Databases of prepaid debit cards issued by the National Bank of Ras Al-Khaimah PSC in the United Arab Emirates were targeted.



Earlier this year, they also targeted prepaid debit cards of Bank Muscat.



2

This is done by encoding ordinary magnetic stripe cards with the stolen information.

They emailed the hacked account numbers to organised criminal groups around the globe who could clone the cards.

They next hacked into individual prepaid card accounts in these banks and increased their withdrawal limits astronomically.

3

Other teams of criminals, called cashers, in more than 20 countries, got the fake ATM cards of the hacked accounts with their PIN numbers. They withdrew $45 million in all.

4

The loot has been used to buy expensive luxury goods, such as Rolex watches and cars such as Mercedes and Porsche.

THE LEARNINGS

- Criminals are as smart as banks, or indeed smarter
- Magnetic stripe cards should be phased out and replaced with chip cards – which contain microchips – and are difficult to clone.
- Independent audits of third party processing companies should be made more stringent

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Ad-ded Rancour

Consumer goods advertising has risen several notches in combativeness. By SHAMNI PANDE

On April 18, the Delhi High Court dismissed an application by consumer goods maker Marico to stop Adani Wilmar from advertising its Fortune rice bran cooking oil as healthier and cheaper than Marico's edible oils. Two months earlier, Hindustan Unilever (HUL) had dragged Reckitt Benckiser to the Calcutta High Court. The dispute was about a Reckitt ad which claimed its Dettol dishwashing liquid was 100 times better than HUL's Vim. While the court asked Reckitt to modify the ad, HUL later came out with its own ad that exhorts consumers to use the power of 100 lemons instead of an antiseptic to clean utensils.

people tend to rely on habit for purchases, such as dishwashing liquids or toothpaste. Angshu Mallick, Chief Operating Officer, Adani Wilmar, defends its ad campaign. "When we compared our brand with Saffola Gold and Sundrop Heart we were just placing the facts before readers," he says.

Another ad that raised eyebrows recently came from PepsiCo. The campaign for Pepsi's Atom cola lampoons the stance of daredevilry that is a highlight of Coca-Cola's best-selling Thums Up brand. A PepsiCo India spokesperson says the ad projects a "more relevant and relatable definition of masculinity, as opposed to the much-hyped mindless

NO HOLDS BARRED

Adani Wilmar ad says its rice bran oil is healthier and cheaper. **Marico** files lawsuit against claim. Plea rejected

Reckitt Benckiser ad says Dettol dishwasher better than HUL's Vim. **HUL** comes out with own ad lampooning its rival

Competitive, or combative, advertising where a company directly compares its product with a rival's and claims superiority, is nothing new in India. Beverage giants PepsiCo and Coca-Cola have been taking potshots at each other for many years now. What is new, however, is the rise in the number of companies engaging in such advertisements and the growing intensity with which the rivals are striking back.

The trend is most visible in the consumer goods sector, as companies fight to capture market share in an economy growing at its slowest pace in a decade. Companies resort to combative ads usually in segments where

action" usually shown in advertising.

So far, only a handful of disputes have reached the courts. But the number of complaints with the Advertising Standards Council of India surged seven times to 784 in the year ended March 2013 compared with the year before, says Secretary General Alan Collaco. The ASCI is a self-regulatory organisation for the advertising industry.

Will such ad campaigns continue? Yes, say marketing gurus. "Typically, market shares tend to go up temporarily for brands (because of competitive ads)," says brand strategy and marketing consultant Harish Bijoor. "They get a lot of attention." ◆

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Hot in Every Sense

Headphones from Sweden's Urbanears are as much about style as about clear, loud sound. Its high-end Plattan headphones have a design that is loud as well. The tomato red unit sent for review was covered in fabric and leather all over. The sound quality was really good, more so since it is not a very expensive unit by today's standards. The bass came through well and the lows were clear too. The ear cups fit tightly and keep most external noises out. They are easy to adjust and can even be pulled down separately over one ear. However, the ears do feel a bit hot after listening to an album or two as this is not an open ear model. The stand out feature is the ZoundPlug on the right ear cup which can be used to pin another jack to share music with one more person. The sound on the second earpiece has the same clarity.

Design
Share option

Ear cups heat up

Urbanears Plattan **Price:** ₹5,750

Fujifilm X100S **Price:** ₹74,999

Stunning Results

The Fujifilm X100S is a camera for the enthusiast, not an expensive substitute for a point-and-shoot. It has a single focal length lens, which makes it great for portraiture, street photography and maybe some macro shots, but there is no zoom feature at all. Like earlier X100s it has a retro look, but the USP of this camera and its differentiator from earlier models is its 16.3 MP X-Trans CMOS II sensor with an on-sensor phase detection auto-focus. The camera is certainly fast, but the auto-focus is found a bit lacking when one shifts to macro mode and we often had to use manual focus. But the results are stunning, with the colour reproduction being among the best we have seen in a while. Sadly, the camera does not perform all that well in poor light. Thankfully, the flash compensates having many modes and options.

NANDAGOPAL RAJAN

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Basic Leadership Skills	Fr. E Abraham, SJ & ISF Irudayaraj	June 10-14	XLRI
Sports Marketing Strategies: Emerging Structures & Applications	Sanjeev Varshney & Chandradeep Mitra	June 10-14	NEW DELHI
Effective Marketing	Pingali Venugopal	June 10-14	XLRI
Lean Six Sigma using Minitab & Excel	Dipankar Bose	June 12-14	XLRI
Theatre Techniques for Effective Communication	Fr. Francis Peter, SJ & Mukesh Chaturvedi	June 17-21	XLRI
Labour Laws for Corporate Managers	P K Padhi & Tina Stephen	June 24-26	XLRI
Managing Strategic Change	Indrajit Mukherjee	July 8-10	XLRI
Balanced Score Card	Santosh Sangem & Basant Purohit	July 10-13	XLRI
Marketing Strategies for Enhancing HR Effectiveness	Sanjay Patro	July 22-24	XLRI
Merger, Acquisition and Corporate Restructuring (MACR)	A Kanagaraj & Pitabas Mohanty	July 22-25	NEW DELHI
Mentoring, Coaching & Counselling for Personal and Managerial Effectiveness	ISF Irudayaraj	July 22-25	XLRI
HR Business Partnering	Gloryson R B Chalil	July 29-Aug 1	XLRI
Bond Portfolio Management & Interest Rate Derivatives	H K Pradhan	July 29-Aug 2	XLRI
Financial Intelligence for Marketing Executives	A Kanagaraj	August 5-7	Mumbai
Competitive Advantage Through Intellectual Property	Lalitha Sreenath	August 5-7	XLRI
Creative Decision Making in Marketing: Behavioral Research Applications	Sanjeev Varshney & Manish Singhal	August 5-7	XLRI
Strategic Industrial Relations	Pranabesh Ray	August 5-9	XLRI

Title of the Programme	Programme Coordinator(s)	Dates	Venue
Managerial Effectiveness through Self-Awareness	Manish Singhal	August 7-10	XLRI
Corporate Social Responsibility for Strategic Advantage	Tata L Raghu Ram	August 12-14	XLRI
Corporate Valuation	Prantik Ray	August 12-14	Mumbai
Brand Management for Corporate Growth & Profitability	Sanjay Patro	August 12-16	XLRI
Empowerment & Leadership for Women Executives	Anita Sarkar	August 19-22	XLRI
Data Analysis Using Excel	Pitabas Mohanty & Soumyakanti Chakraborty	August 22-24	Chennai
Applied Analytics for Managers	P C Padhan	August 26-30	XLRI
Basic Leadership Skills	Fr. E Abraham, SJ & Dr. ISF Irudayaraj	August 26-30	XLRI
Strategic Management for Business Leadership	Sharad Sarin	Sept. 2-4	Bangalore
Employee Misconduct & Disciplinary Action	M R Sreenath	Sept. 2-4	XLRI
Supply Chain Analytics	TAS Vijayaraghavan	Sept. 2-5	XLRI
Managing Technology & Innovation	T Bandyopadhyay	Sept. 11-3	Bangalore
Communication & Presentation Skills	Manish Singhal	Sept. 17-20	XLRI
Professional Sales Management	Pingali Venugopal	Sept. 17-21	XLRI
Strategic Human Resource Management	L Gurunathan	Sept. 17-21	XLRI
Competency Based Recruitment & Selection	R K Premarajan	Sept. 23-25	Mumbai
Human Resource Development	M Srimannarayana & Dr. ISF Irudayaraj	Sept. 23-27	XLRI
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Against Poll Odds

Power regulators push through tariff hikes in election season.

By ANILESH S MAHAJAN

Hyderabad, home to several information technology, pharmaceutical and construction companies, goes without power for more than eight hours every day, making the state capital akin to a very large and crowded furnace in these days of summer. The crowds may not stay quiet about this when elections to the state assembly come around next summer.

That gives the chief minister very little time to solve the problem of shortages. And there is very little he can do about the tariffs.

In January this year, the five power distribution companies in the state obtained the state regulator's permission to charge ₹9 to ₹11 per unit for power from gas-based plants, up from just three rupees earlier.

Steep indeed, but Reddy thinks of it as a small price to pay for consumers who do not want power cuts. That will be the industrial users. The good thing is that you get to choose. If you do not want this power, you can stay with the regular supply, which the same distributors supply from coal-based or hydro power plants. For the gas-based one, you need to especially apply.

If enough people apply for it, power generation using gas will become viable. Gas for power production, imported as liquefied natural gas (LNG), costs three times what coal does. And it is LNG that has become par for the course ever since gas from the KG basin evaporated. And it is too expensive to be viable under the old tariff structure.

It is not just Andhra Pradesh. Punjab, Haryana, Bihar, Delhi, Meghalaya and Orissa have also all raised tariffs to make room for higher fuel prices (see *Shock Treatment*). Ten other states have moved their regulators for tariff increases. As more and more increases get approved, it is not just the distribution companies that are heaving sighs of relief.

When the Central Electricity Regulatory Commission on April 2 accepted Adani Power's case for raising tariffs and asked its customer states to set up a committee to decide how much the tariffs should go up, the company's shares jumped 15 per cent on the Bombay Stock Exchange.

Interestingly, rivals Tata Power and Reliance power too saw their stock rise by one and five per cent, respectively. The investors knew it was a matter of time before the latter two companies got similar shots in the arm. And sure enough Tata Power got it a fortnight later. Reliance Power is waiting with bated breath.

The CERC order could not have come a day too soon. Both Adani and Tata Power have plants in Mundra, Gujarat, and have been using imported coal. They had been losing ₹790 crore and ₹1,873 crore every year, respectively.

The two projects were conceived when coal was available from Indonesia at less than $50 a tonne, much less than the going rate of $90 a tonne in other markets overseas. But in 2011 Indonesia's coal became costlier and matched international prices. Expectedly, Adani and Tata's projections turned to ashes.

Reliance Power has sought higher tariffs for the power from its Sasan plant on grounds of increase in construction cost and the de-

POWER ECONOMICS

RUNNING ON DOMESTIC GAS

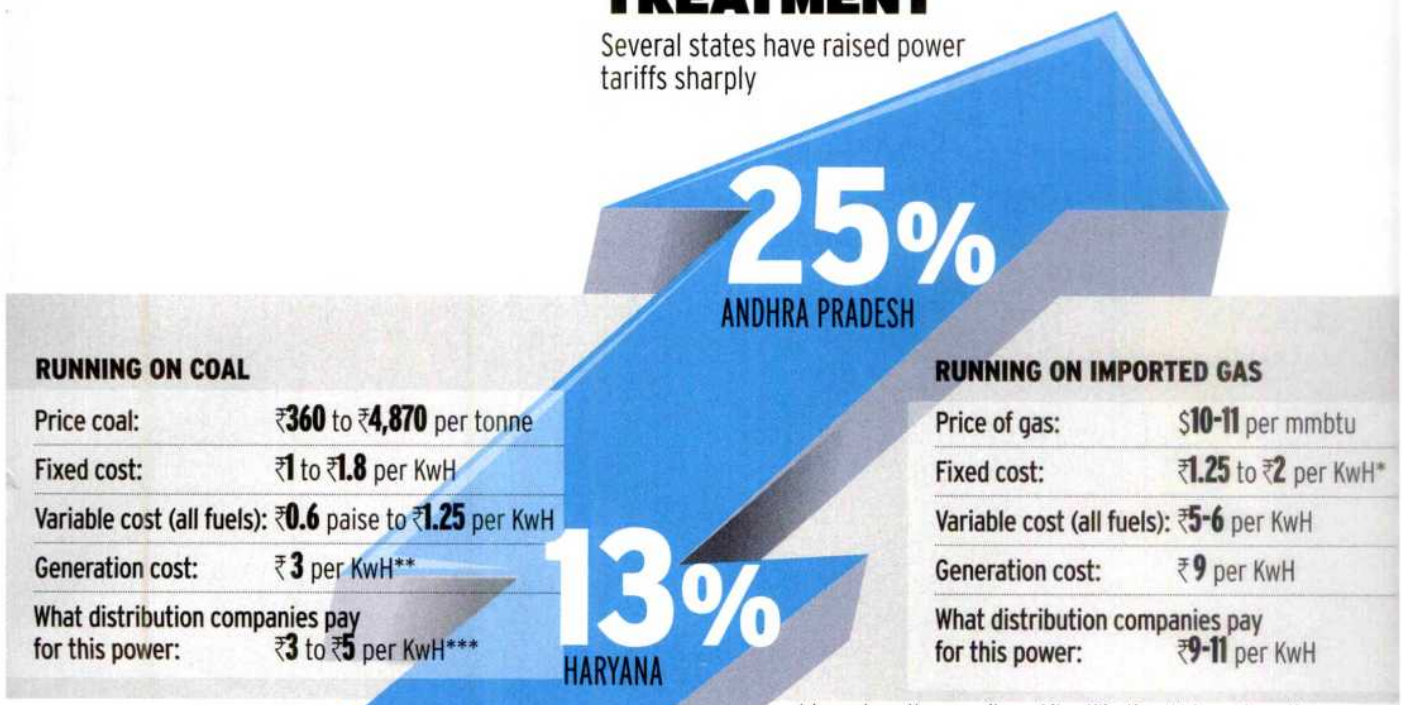
Price of KG D6 gas:	$4.2 per mmbtu
Fixed cost:	₹1.25 to ₹2 per KwH
Variable cost (all fuels):	₹1.8 per KwH
Generation cost:	₹3 to ₹3.6 per KwH
What distribution companies pay for this power:	₹5 per KwH

THE POLITICAL RELUCTANCE TO RAISE POWER TARIFFS HAD PUSHED DISTRIBUTORS IN SEVERAL STATES TO THE VERGE OF BANKRUPTCY

3.5%
ORISSA

SHOCK TREATMENT

Several states have raised power tariffs sharply



RUNNING ON COAL	
Price coal:	₹360 to ₹4,870 per tonne
Fixed cost:	₹1 to ₹1.8 per KwH
Variable cost (all fuels):	₹0.6 paise to ₹1.25 per KwH
Generation cost:	₹3 per KwH**
What distribution companies pay for this power:	₹3 to ₹5 per KwH***

RUNNING ON IMPORTED GAS	
Price of gas:	$10-11 per mmbtu
Fixed cost:	₹1.25 to ₹2 per KwH*
Variable cost (all fuels):	₹5-6 per KwH
Generation cost:	₹9 per KwH
What distribution companies pay for this power:	₹9-11 per KwH

*depends on the capacity and its utilisation **depends on the source and type of coal, and logistics ***depends on the operational costs and T&D losses at distribution companies

preciation of the rupee, which has fallen about 37 per cent since April 2007.

Compelling arguments, but sound reasoning has seldom worked in the power sector, given its perceived political sensitivity. Why, cheap power to farmers continues all around. In Punjab and Andhra, it is not even cheap; it is free. The political reluctance to raise tariffs had pushed distributors in Punjab, Tamil Nadu, Andhra Pradesh, Madhya Pradesh, Bihar, Rajasthan, and Uttar Pradesh to the verge of bankruptcy and they had to be bailed out by the finance ministry, which lavished ₹1.9 lakh crore on them. The condition for the bailout was that the states must raise tariffs and cut losses.

The big change now is that regulators have finally begun to bite the bullet. And they are showing teeth of steel.

In November 2011, the Appellate Tribunal for Electricity, which is the arbiter in disputes with the regulator, said state electricity regulatory commissions must initiate suo motu tariff revisions in case distribution companies failed to approach them on time. This has been used by the Tamil Nadu electricity regulator to raise tariffs. "I believe politicians have realised that giving no power is hitting them more adversely than expensive power," says Debashish Mishra, Senior Director at accounting and consultancy Deloitte's India chapter.◆

TAKE A HIKE

Gas price review in 2014.
Expect a steep hike

Domestic coal price revision in 2014, after the elections.
Expect a hike

Railway charges to be reviewed twice a year based on diesel prices.
Expect hikes

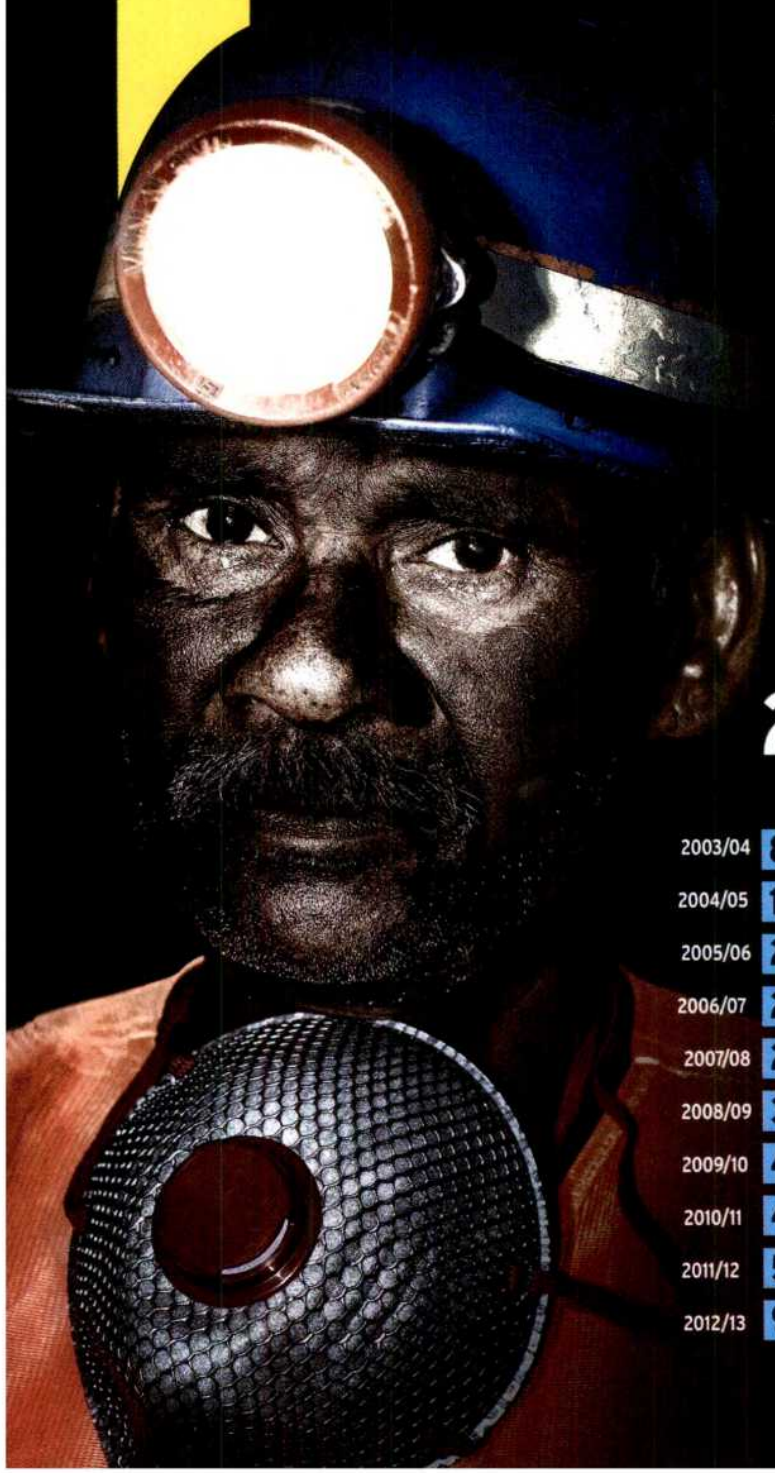
Government committed to periodic increases in the price of diesel, which fuels equipment at power plants.
Expect hikes

Utilities asked to reduce transmission and distribution losses.
Expect rationalisation

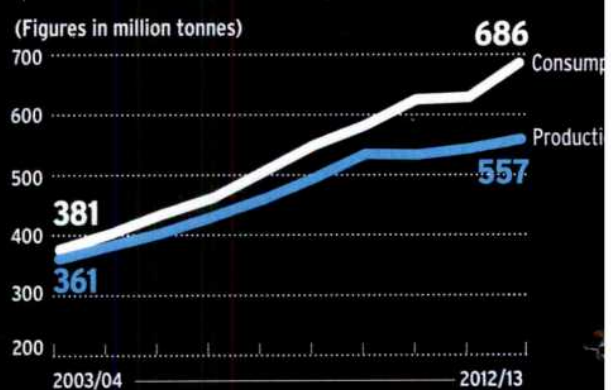
BLACK MARK

India badly needs more coal. Consumption soared to record levels in 2012/13. Much of the rising demand comes from the power sector. India's coal output has fallen way behind, leading to a surge in imports. The situation could get worse, given the coal allocation scam and the lack of infrastructure to transport coal.

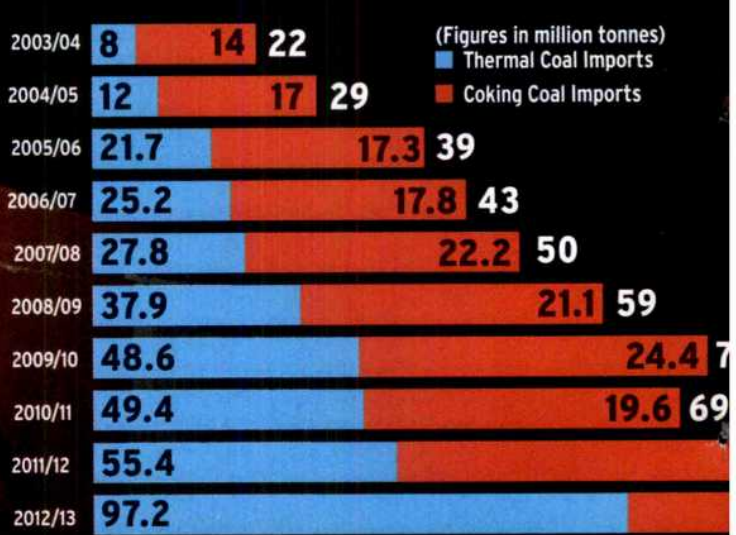
Graphic by **Santosh Kushwaha** • Research by **Jyotindra Dubey** • Photograph by **Vivan Mehra**



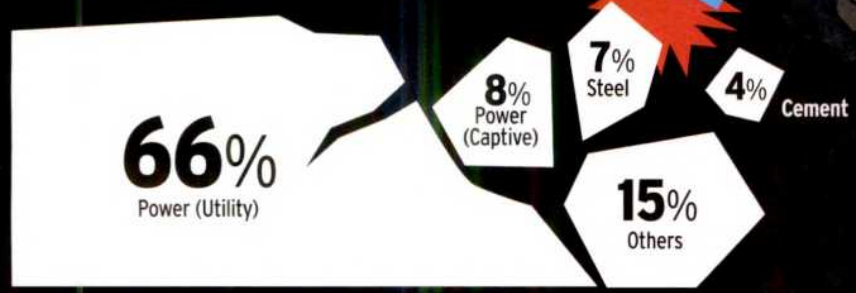
1 Coal consumption surges higher every year. Domestic production is unable to meet the rising demand...



2 ... forcing India to bridge the gap with imports, which touched a record high in 2012/13, rising 29 per cent. Thermal coal (used in power generation) imports jumped 75 per cent



3 Almost two-thirds of coal consumption in India is by the power generation industry



Coal Consumption Breakdown (2011 -2012)

4 Almost 80 per cent of India's power generation is coal based. The government hopes for a big jump in thermal power capacity by the end of the 13th Plan

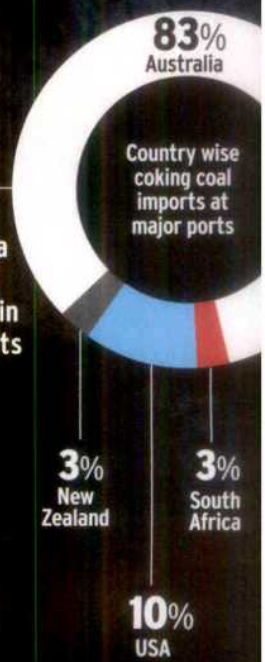
71,121 MW
Capacity at the end of 10th Plan (2002/07)

114,121 MW
Capacity at the end of 11th Plan (2007/12)

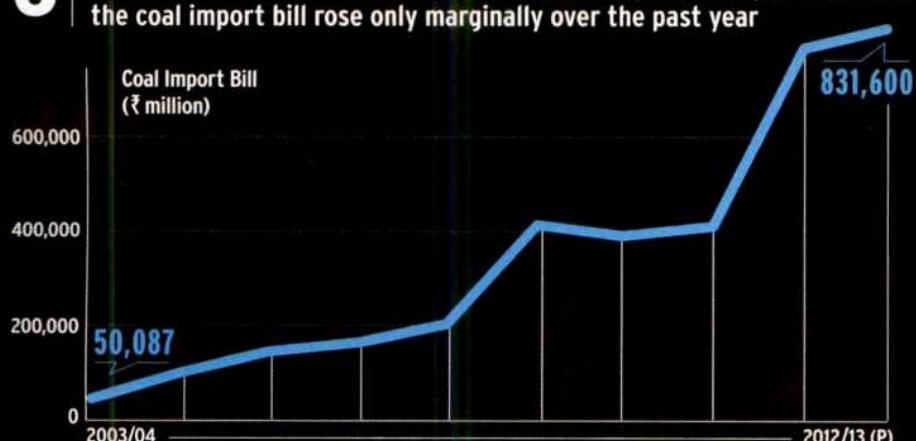
183,931 MW
Planned capacity at the end of 12th Plan (2012/17)

219,131 MW
Planned capacity at the end of 13th Plan (2017/22)

5 India relies heavily on Indonesia for thermal coal imports and Australia for coking coal (used in steel and cement plants) imports



6 The black picture has one silver lining. Global prices of coal have been softening on weak Chinese demand. Despite the jump in imports in 2012/13, the coal import bill rose only marginally over the past year



293.50
BILLION TONNES INDIA'S COAL RESERVES, THE FIFTH LARGEST IN THE WORLD

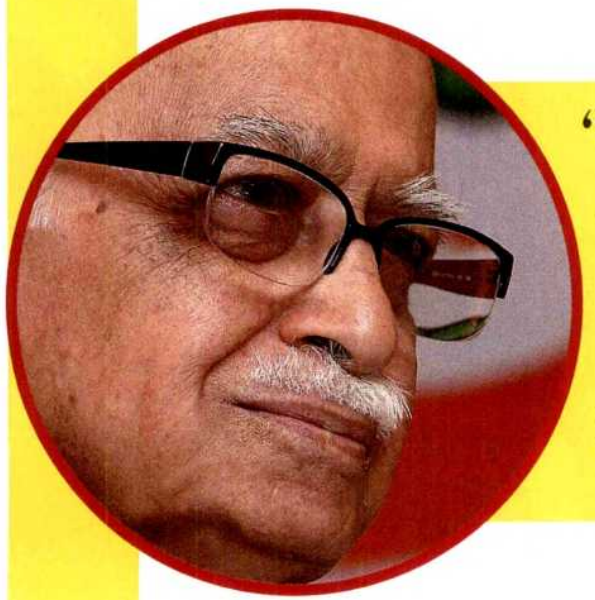
47.6 103

37.8 135

Sources: Ministry of Coal, ASSOCHAM

"The Prime Minister is presiding over a very corrupt regime and his image is tarnished"

Prakash Karat, *General Secretary, CPI(M), in* Mint

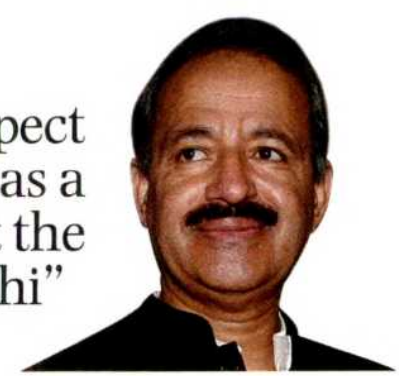


"Sheer self-respect demands the PM calls it a day, and orders an early general election"

L.K. Advani, *senior BJP Leader, in* The Indian Express

"Party workers respect Manmohan Singh as a prime minister, but the leader is Sonia Gandhi"

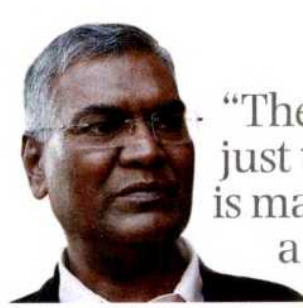
Rashid Alvi, *senior Congress leader,* in India Today



"THEY (PMO OFFICIALS) HAVE NO BUSINESS TO INTERACT WITH THE CBI. HOW CAN A JOINT SECRETARY GO THROUGH THE PROBE REPORT?"

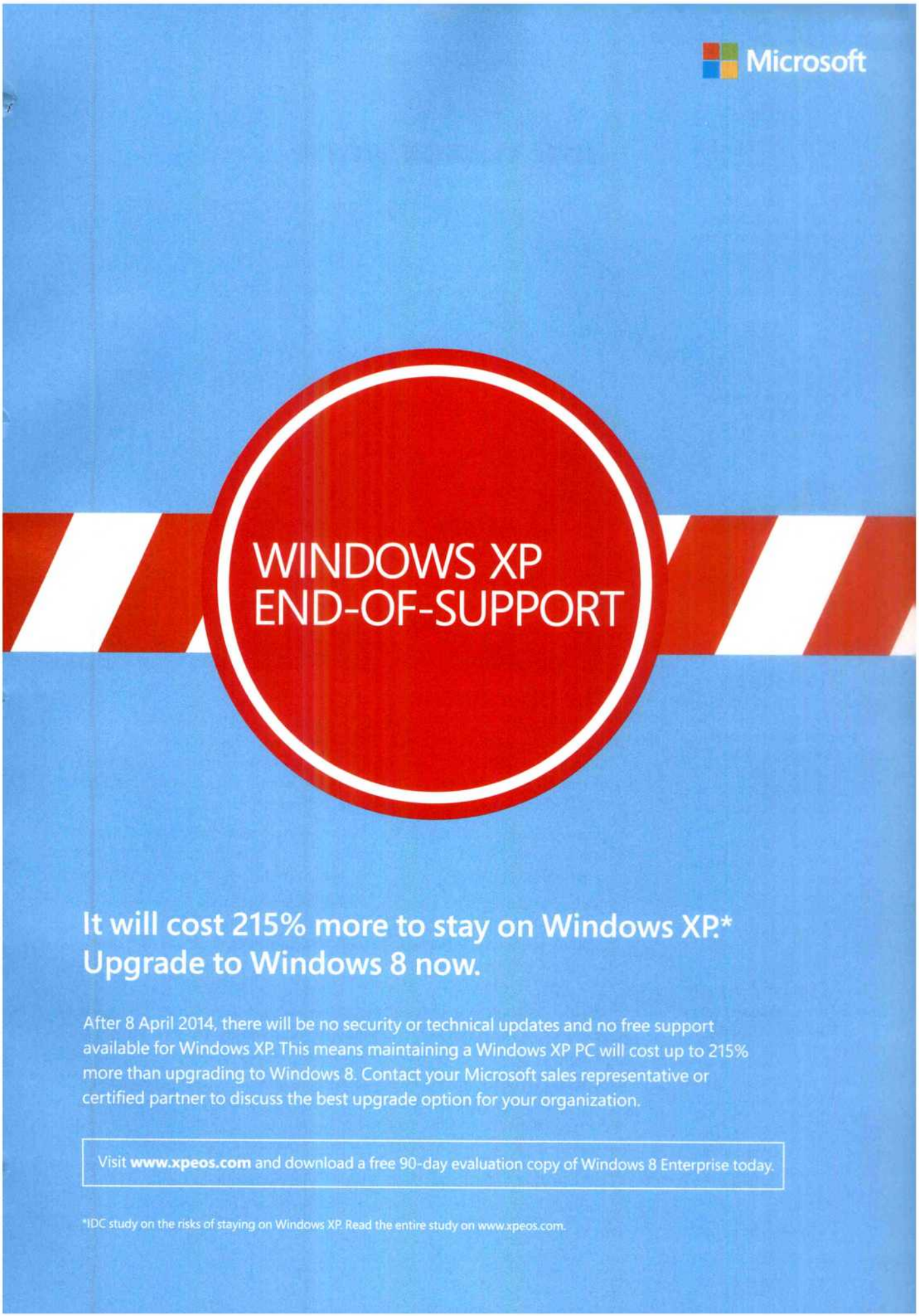
Supreme Court bench

referring to PMO officials making changes in the CBI's report on the coal block allocation scam



"The removal of the ministers is just the beginning. Unless the PM is made answerable, this will remain a lameduck government"

D. Raja, *senior CPI leader, in* The Asian Age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WINDOWS XP
END-OF-SUPPORT
It will cost 215% more to stay on Windows XP.*
Upgrade to Windows 8 now.
After 8 April 2014, there will be no security or technical updates and no free support available for Windows XP. This means maintaining a Windows XP PC will cost up to 215% more than upgrading to Windows 8. Contact your Microsoft sales representative or certified partner to discuss the best upgrade option for your organization.
Visit www.xpeos.com and download a free 90-day evaluation copy of Windows 8 Enterprise today.
*IDC study on the risks of staying on Windows XP. Read the entire study on www.xpeos.com.

Dating Distress

The best things in life have never been free, but they cost more in some places than in others. Dating, for instance, is most expensive in Australian cities, according to a report by Deutsche Bank. Movie tickets and pizza costs in places like Melbourne and Sydney, it says, are the highest in the world. In contrast, Indians can take heart – Mumbai and Delhi, along with South Africa's Johannesburg, are best for low-cost dates.

Big Ticket

A 'season ticket' issued by the Burnley Football Club in the United Kingdom for the 1884/85 season has made its way back to the club, and is being called the oldest ticket in existence. Red in colour and large in size, it has the ticket holder's name embossed on it. But it is not a purchased ticket – it belonged to Leonard Metcalfe, a member of the football team that year.

Dry Days Ahead

Around 400 canals and dams in Maharashtra are still incomplete, though well past their first commissioning deadline, says a report by the Comptroller and Auditor General. Their cost too has soared – 240 of them, which should have incurred a total expenditure of ₹7,200 crore will now cost nearly ₹32,000 crore.

HOW THINGS WORK

SANTOSH

The Biter Bitten

The Central Bureau of Investigation (CBI), India's elite crime busting outfit entrusted with the most high-profile and sensitive cases, finds itself in the dock with the Supreme Court recently calling it "a caged parrot speaking in its master's voice". The context was the revelation that the CBI had allowed the government to influence its report on the coal blocks allocation scam. What the CBI is all about:

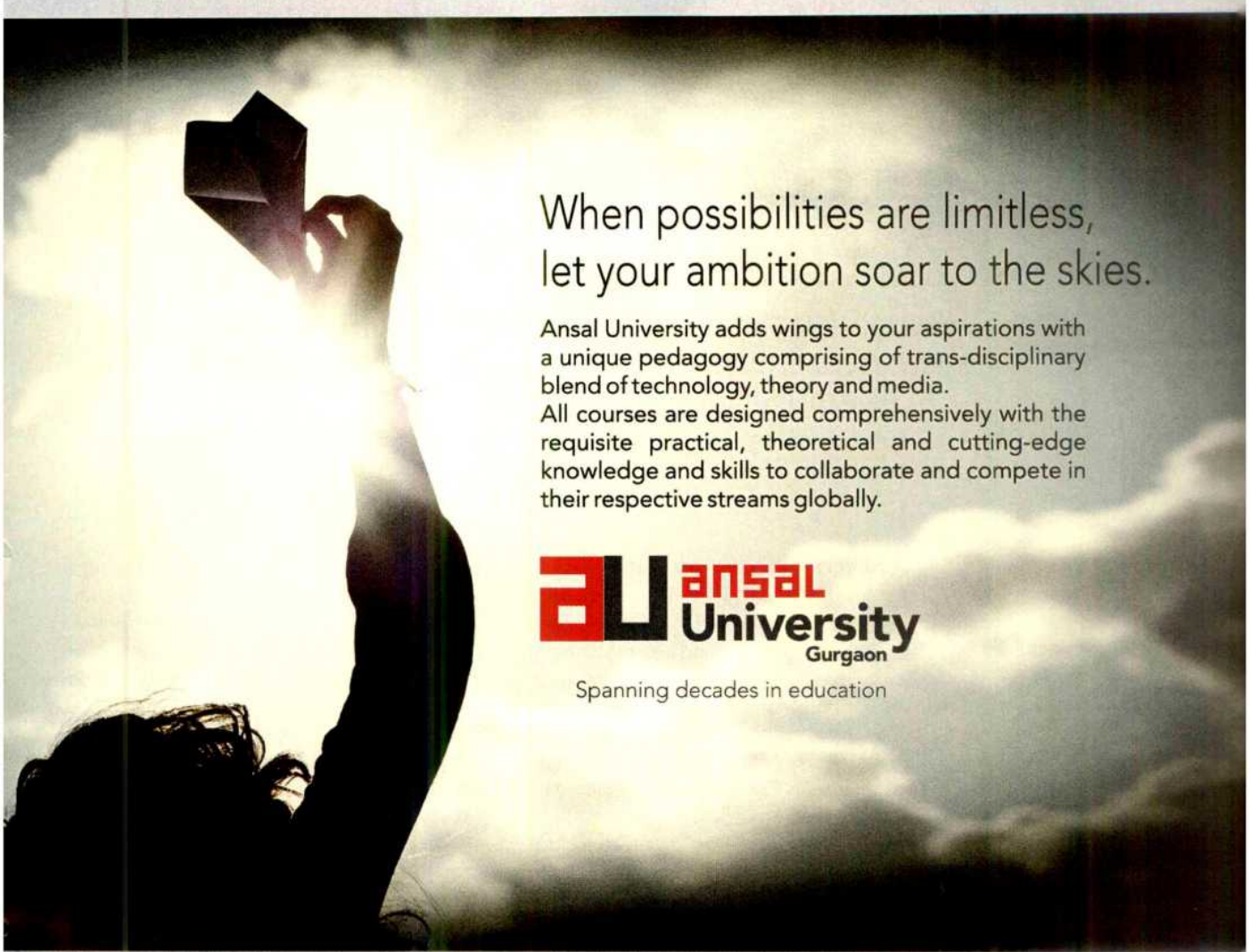
History: The forerunner of the CBI was the 'Special Police Establishment' set up by the British in 1941 to probe corruption relating to wartime supplies. Its ambit gradually expanded and it was reborn as the CBI in independent India on April 1, 1963.

Strength: The agency currently has a sanctioned strength of 6,586 officers of which 5,755 posts are filled. In 2012, it investigated 842 cases and held another 177 preliminary enquiries, filing charge sheets in 687 cases. Judgments in 1,188 cases probed by the CBI were delivered during the year, with a conviction rate of 67 per cent. Its sanctioned revenue budget for 2012/13 was ₹334.36 crore.

Controversies: The coal allocation scam is only the latest of a host of controversies – starting with the Bofors kickback scam – in which the CBI was seen as more of a collaborator than an investigator. There have also been many cases of plain mishandling.

Reform: Major reforms in the CBI's functioning were suggested by the Supreme Court in its 1997 judgment in the Vineet Narain case. In the early 1990s, Narain, a journalist, filed a public interest litigation charging the CBI was trying to scuttle its own investigation into a money laundering case involving one Surendra Kumar Jain, as powerful politicians were also mixed up in it. The court's most crucial directive was that an independent Central Vigilance Commission be set up to which the CBI would report. This was duly done, and yet the CBI's functioning seems to have changed little.

COMPILED BY BASUDHA DAS



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- B.Plan (4 years)
- Bachelor of Fine Arts (4 years)
  - Painting
  - Applied Art
- M.Arch (2 years)
  - Sustainable Urbanism
  - Sustainable Environment Design
- M.Plan (2 years)
- Ph.D

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  - Fashion & Textile
  - Interior Design
  - Visual Communication
- M.Des (2 years)
- Ph.D

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  - Computer Science & Engineering
  - Electronics & Communication Engineering
  - Civil Engineering
  - Electrical & Electronics Engineering
  - Mechanical & Automation Engineering
- M.Tech (2 years)
  - Computer Science & Engineering
  - Electronics & Communication Engineering
- M.Tech - (Part Time) (3 years)
  - Computer Science & Engineering
  - Electronics & Communication Engineering
- Ph.D

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- B.Sc - Hotel Management & Catering Technology (3 years)
- MBA (2 years)
- Executive MBA - (Part Time) (2 years)
- Certified Financial Planner (CFP[CM]) (6 months)
- Ph.D

School of International Studies
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- BBA/B.Sc
- MBA
- M.Tech
- Ph.D

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- B.Sc - Information Technology (3 years)
- MCA (3 years)
- M.Sc - Information Technology (2 years)
- Ph.D

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CHRIS CLEARFIELD and ANDRÁS TILCSIK

A Hacker's Market

Few mechanisms can prevent hoaxed tweets, and given powerful incentives to broadcast them, malicious attacks can be expected to proliferate

Never in the history of written communication could 140 characters have the impact that they can have now. Two weeks ago, after gaining access to the Associated Press's main Twitter account (@AP), the Syrian Electronic Army (SEA) posted a fake tweet reporting two explosions in the White House and the injury of President Barack Obama. Within seconds, US financial markets dropped by about one per cent.

Minutes later, Twitter was abuzz with refutations. Reporters at the White House tweeted that they felt no explosion, and AP reporters and the AP Politics Twitter account announced that @AP had been hacked. At his afternoon briefing, White House press secretary Jay Carney confirmed that Obama was, indeed, unharmed. Financial markets returned to their pre-hoax level.

THE @AP TWITTER HOAX REPRESENTS SYSTEMIC RISK THAT ... ARISES FROM THE INTERACTION OF HIGHLY INTEGRATED FINANCIAL MARKETS AND INCREASINGLY DEMOCRATISED NEWS DELIVERY

The @AP Twitter hoax represents systemic risk that cannot be eliminated, for it arises from the interaction of highly integrated financial markets and increasingly democratised news delivery. Given strong incentives for malicious parties to perpetrate such hoaxes, we should expect to see an increase in incidents.

Financial markets are vulnerable to manipulation, because they are not in the business of evaluating the truth. Trading often favours first movers, so being fast but wrong can still be profitable.

Imagine that a sophisticated trading firm has invested significant resources to develop an algorithm that quickly evaluates the potential market impact of news, and then automatically sends orders to trade based on that predicted impact. When that algorithm parses a tweet from the AP containing important keywords (explosion, White House, and Obama), it will send orders to sell with the expectation that the market will drop as others – first, slower algorithms, then even slower humans – start to process the same news.

The first mover is happy to make such trades without verifying that the news is true. If it is true, the market will stay down or continue dropping, and the first mover will profit from the sales that it has made. If the story is a hoax, the market will probably return to its earlier, fairly valued level, and the first mover will break even on its sales, and possibly profit from any position purchased as a hedge when the market was down. The first mover's algorithm worked, regardless of the story's veracity.

The likely losers in the @AP Twitter hoax were later movers who did not react quickly to the news, but reacted instead to the market's movement. These late movers were also likely to have been sophisticated electronic or institutional traders; some were probably using arbitrage-based strategies that relied on the futures market for a calculation of the fair price.

The market's vulnerability to hoax stories is thus difficult to eliminate, for it is inherent in its structure. It cannot be regulated away or fixed by technology or surveillance.

Even if markets moved more slowly, there would still be a first mover who responded before such a news story was revealed as a hoax. This dynamic is similar to that of an asset bubble, albeit faster. In a bubble, valuations are based on collectively evaluated evidence, and those who enter the market earliest often benefit. Whether evaluat-

ing an assumption about the rise of house prices or whether a news story is true, the market does not provide a definitive answer instantaneously.

If protecting against hoaxes is not the market's purview, can news agencies or new media entities like Twitter prevent such deception? To be sure, they have suffered reputational damage from this fiasco and will likely try to improve. But their efforts will not be enough.

Twitter's vulnerabilities were technically understood before this event, and the service was already moving towards a more sophisticated authentication model (a password paired with a one-time key from a text message or other device). Twitter will likely implement this soon. It should also consider adding an optional "two-key" system, in which an independent signoff from a separate account is required before a proposed tweet is broadcast. But, while such measures would increase the difficulty of hacking the system, no technological fix can make it impenetrable.

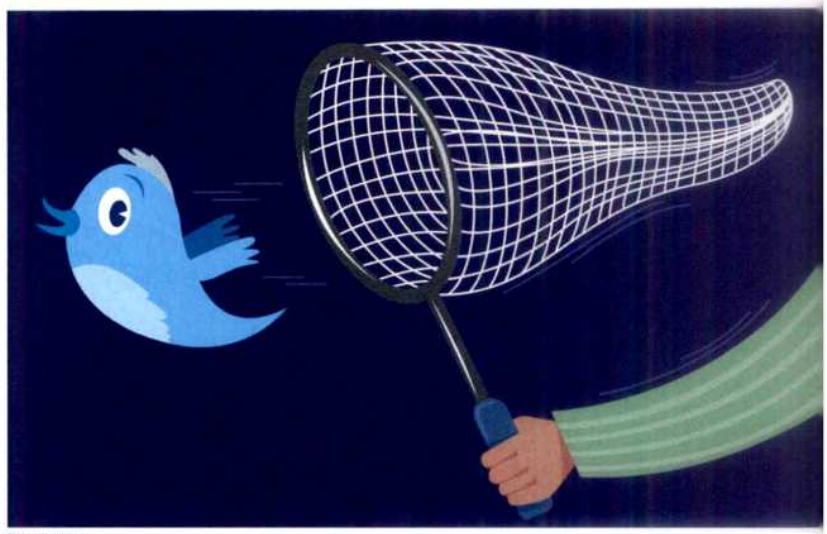
What about the AP's vulnerabilities? Attackers launched a "phishing" attempt against the AP's emails shortly before the hoax tweet was sent. Phishing attacks, in which an employee is duped into sending a password to a third party or clicking an untrusted link that instals malicious software, represent a hybrid of cultural and technological failures.

As attackers become more sophisticated, they send better-crafted emails, sometimes impersonating trusted sources that lure unwary users. Crafting a culture of security is difficult and often at odds with the dynamic and decentralised work environment of a fast-moving newsroom.

As technologies change, so must awareness of vulnerabilities, and this awareness must be disseminated through means other than corporate memos that are disconnected from day-to-day business realities. Empirically, few firms get this right: America's National Public Radio and the BBC were both recently hacked by the SEA, while McDonald's and Burger King recently had their Twitter accounts compromised. The proliferation of security lapses means that people are more likely to shrug their shoulders than to cast the first stone at a company that is breached.

Finally, the AP is unlikely to face financial penalties for this mistake. A lawsuit for losses stemming from the hoaxed tweet would face nearly insurmountable obstacles.

Because few mechanisms can prevent the proliferation of hoaxed tweets, and given the high-profile response that successful hackers can expect, Twitter will remain a vehicle of malicious hoaxes, even as technological barriers make attacks more challenging. Indeed, the SEC recently approved the use of social media like Facebook and Twitter for publicly traded companies' disclosures to investors. Imagine what might happen if @BP_America tweets: "#Explosion reported at Gulf well. Details to follow."



SANTOSH

AS TECHNOLOGIES CHANGE, SO MUST AWARENESS OF VULNERABILITIES, AND THIS AWARENESS MUST BE DISSEMINATED THROUGH MEANS OTHER THAN CORPORATE MEMOS

The incentives to try to hack such accounts are obvious: not only significant publicity for hackers, but highly lucrative profit opportunities from the almost inevitable stock-market movements that will result. On Twitter, as elsewhere, caveat emptor. ◆

Chris Clearfield is a principal at System Logic, an independent research and consulting firm that focuses on issues of risk and complexity. András Tilcsik is an assistant professor of strategic management at the Rotman School of Management at the University of Toronto.

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OUT OF THE QUESTION

The flurry of reforms it has launched in the last few months have given the government confidence. Early general elections are most unlikely.

By SEBASTIAN P.T.

Weathering the Storm: Manmohan Singh and Sonia Gandhi hope for a political hat trick

SHEKHAR GHOSH/www.indiatodayimages.com

A week before the United Progressive Alliance (UPA) government's ninth anniversary on May 22, Prime Minister Manmohan Singh landed in Guwahati to file his nomination for a fifth Rajya Sabha term. The 80-year-old Singh is most likely to get another six years in Parliament, but for the present, the same cannot be said about the coalition government he heads.

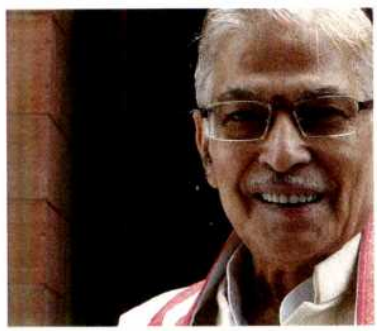
Singh's government has been battered by controversy for months, leading to a virtual paralysis in Parliament. Key reform legislation – including the food security and land acquisition bills – is in limbo with the government facing numerous charges, the latest being bribery allegations over a Railways' post and accusations of having interfered in the Central Bureau of Investigation's functioning.To add to its woes, it is also grappling with the worst economic slowdown in about a decade. "There has been a policy famine for the last four years leading to policy paralysis. When there is no governance, the best democratic solution is an early election," says senior Bharatiya Janata Party (BJP) leader Murli Manohar Joshi. BJP leader Prakash Javadekar strongly agrees. "The economist Prime Minister has failed to manage the economy," he says.

But this is not entirely correct.

Lately, in a break from the past, the UPA government has been in overdrive to dispel charges of policy paralysis. With the window to push through key bills ahead of the next general election narrowing, the government has focused on clearing pending projects that do not need a change in law. Projects worth about ₹74,000 crore were approved by the end of March, mostly in the sphere of energy and infrastructure. "The Cabinet Committee on Investment (formed on January 2) has done significant work in clearing projects," says Harsh Pati Singhania, Managing Director of JK Paper.

The results are showing. The government's policies on foreign direct investment in aviation and multi-brand retail are already off the ground. Earlier this year, UAE flag carrier Etihad Airways announced plans to pick up a 24 per cent stake in Jet Airways. It is the first investment by an overseas operator in an Indian airline since the government liberalised airline investment rules last September. The cabinet has also cleared Swedish retail giant IKEA's investment plans in India. And with the passing of the Banking (Amendment) Bill last December, banking licences are now open to new players.

Although the economy is still in the doldrums, there are some positive signs. For one, inflation has eased and, for another, growth expectations are up. The Congress win in Karnataka has also boosted the party's morale at the Centre. All these have given rise to speculation that if the government is able to play its ace – get the food security bill through Parliament in the monsoon session – it may well hold general elections, scheduled for May 2014, ahead of schedule. Speculation has been rife about a general election along with Assembly polls slated for the end of the year in Rajasthan, Madhya Pradesh, Delhi, Chhattisgarh and Mizoram.



"When there is no governance, the best democratic solution is an early election"

Murli Manohar Joshi
Senior BJP leader

But the consensus among most political observers remains that it is unlikely, and not only because Lok Sabha members across the political spectrum are reluctant to face early polls. "Why would any sensible government go in for early polls when so much work is still to be completed?" says P. C. Chacko, Congress spokesman.

Party sources claim the government realises the signs of economic recovery are still tenuous and the Karnataka victory may not represent a national political trend. The UPA certainly does not want to repeat the mistake made by the Atal Behari Vajpayee-led National Democratic Alliance (NDA) government which advanced the general election by about six months in 2004. The NDA confidently assumed there was a wave in favour of the BJP after its impressive victories in Rajasthan, Madhya Pradesh and Chhattisgarh at end of 2003. Despite its confidence, it was trounced.

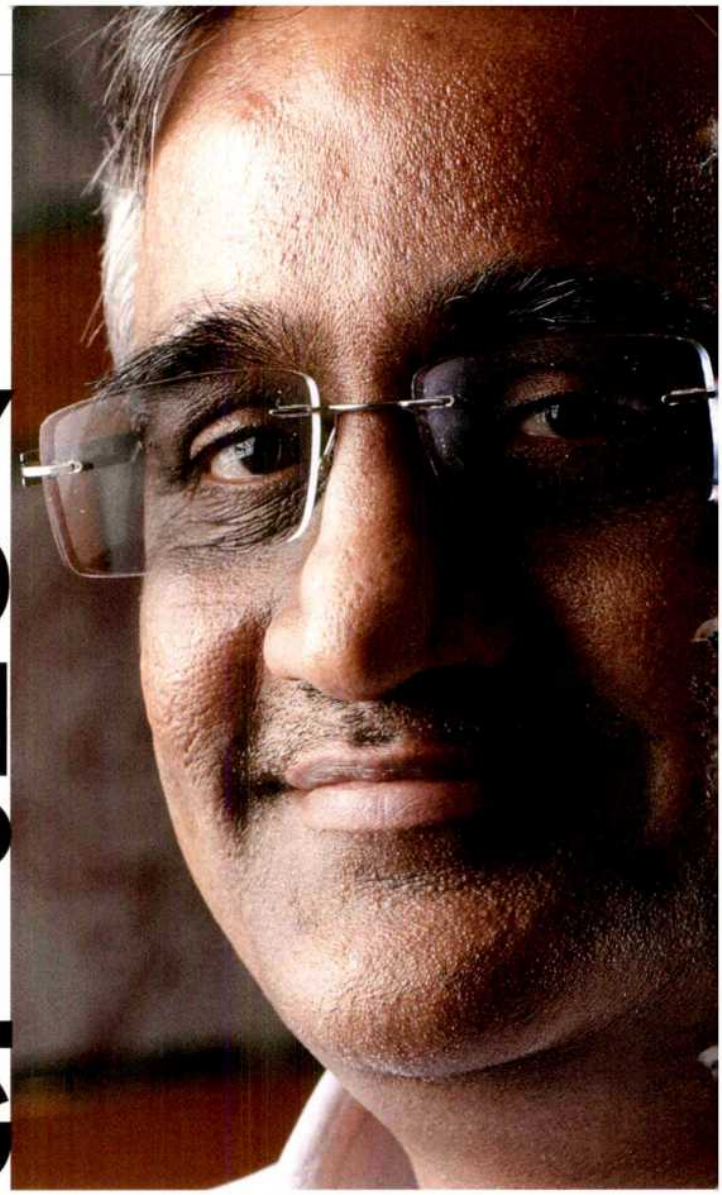
Instead of looking at early polls, the Congress is banking on populist measures such as the direct cash transfer scheme and the food security bill to further boost support for the party. It hopes these will work the same magic the National Rural Employment Guarantee Act and the ₹72,000-crore farm loan waiver did for it in the 2009 general election, bringing it a second, resounding victory. But industrialists say the government cannot afford to focus on just a few schemes for the rest of its tenure. Singhania says passing laws or approving projects is not enough if they are not implemented well.

Chacko says the focus now is on passing the food security and land acquisition bills. While the government is exploring the ordinance route for both, he says there is no consensus with the Law Department – different legal experts hold different views. "These can be game-changers for the country. But the opposition does not want these to be passed," he says. "We are in talks with various political parties to pass the food bill at the earliest."

Thus, in all likelihood, Singh will complete his second term. Even if an ally walks away or the Opposition moves a no-confidence motion, the government will muster up the numbers to scrape through. As the UPA runs its last lap before its mandate runs out, Singh's reputation as an economic reformer is certainly at stake. And the quality of his leadership could well determine whether the beleaguered UPA has a shot at a hat trick. ◆

Send your comments to editor.bt@intoday.com

VANITY AND CHILDREN KEEP RETAIL GROWING



Retail giant ***Kishore Biyani****, Founder and CEO of Future Group, and Managing Director of Pantaloon Retail, discusses the retail sector and his own group with* ***Govindraj Ethiraj****, in an exclusive interview on the show* ***Bottomline****, which airs on Headlines Today. Edited excerpts:*

How does the economy look to you? The big numbers seem very disappointing.

The human race always wants more than it has. You always aspire for more. The consumers of today are born to democratic parents. I was born to socialistic parents. I didn't get what I wanted. The younger generation doesn't have that guilt of consumption the way we did. There are new categories. There is aspiration. People want to consume more than what they have. Economic cycles come and go. But a base consumption has been set now.

And you are not seeing any pull back?

We are not seeing any pull back. We are seeing category shifts at times, but nothing to show that consumption is not happening and people don't want anything. It is not easy to predict how the consumer will behave. There are categories which are growing significantly – chocolates as a category, beauty products, breakfast foods.

And what explains that?

These categories are related to vanity and children.

For the full interview go to
www.businesstoday.in/kishore-biyani

Breakfast habits are changing. A child has a different breakfast from his/her parents. We see a lot of variation in breakfast as a category. Chocolate is becoming the new celebration. It is replacing *mithai* to a great extent and consumption is happening across all age groups. Beauty is a new emerging category. Everybody wants to look better. Old people want to look younger and young people want to look a little mature.

How many people are walking into your stores today?

We have stores all across and the customer entry is never a big challenge in a country as huge as India. We have close to 300 million footfalls a year, which is huge. We have around 70 million square feet of retail space.

So, one-fourth of the population is visiting or revisiting your stores?

Modern retail is a public space, where you go when you have some time. People go to malls and retail stores, meet other people, do some browsing. You become relevant by being aware of what is happening around you.

Is the fate of the retail industry dependent on a certain degree of base consumption?

I think base consumption is not the challenge. The aspirational consumption, the new consumption, the new categories, how much we launch, how much can we expect – those are the challenges. Modern retail is about selling new products and new categories and creating a demand for new categories.

How has the big retail versus the kirana store battle, if you can call it one, played out in the last few years?

It was never a battle because India is a huge country of 1.2 billion-plus people and modern retail only caters to value added selling of a product. We sell more than 60,000 to 70,000 SKUs (stock keeping units) and a *kiranawala* sells 700 to 1,000 SKUs... The competition doesn't exist. Second, I believe in the theory of India 1, India 2 and India 3. India 1 is the consuming class. Anybody who has a little bit of domestic help is India 1. These are the people who go to modern stores. India 2 still shops from local *kirana* stores and wholesale markets. India 3 is a struggling class – farm, contract labourers – making ends meet somehow. India is a slightly different country. There is a market for every kind of retail format.

You have been through a difficult phase. Where did things go wrong and what have you done to set them right?

We have been working on how to reorganise our business in the last two years because we strongly believe in retail as a business. We had gone into a lot of other businesses. We want to stick to the core and reorganise ourselves around our core business... I strongly believe that business has to be done by batting on the front foot. You can't be burdened with something and do business. We are back to growth... The market levels will support (us).

Your debt level had reached ₹9,000 crore and a lot of what you have been doing in the last few months has been to reduce that debt...

First, the notion of a ₹9,000-crore debt was itself faulty because we had an NBFC business and the primary job of that business was to borrow and lend. So, the numbers got added up into our balance sheet because of the consolidation. I think that created a lot of wrong estimate of the debt. If you take out the NBFC, a large chunk of the debt goes out. We have sold various businesses.

You can only grow business through equity or debt. The equity markets have had their own challenges and being in a company which has a foreign money cap of 24 per cent means the money dries up. To grow we can only look at deleveraging to a certain extent and that is what we did. Business is a long term game. We plan businesses for five, 10 years and so have to have a stronger capacity to do business. We created that capacity so that we could play our second innings in a much better manner than we would have played otherwise.

It's been a year since you sold a stake in Pantaloon to the Aditya Birla group. How do you look back on what that has achieved?

We I think we are talking about double digit growth now in the same stores. We feel lighter and we believe in business we have to keep taking decisions and moving forward. We sold our NBFC business to Warburg Pincus. Pantaloons went to Aditya Birla Group. We have recently done some transactions in our insurance business. We feel comfortable now.

E-commerce is something you have not been able to make much headway in.

We want to do it in a different way and we believe we have cracked the model. So, we are going to launch it for consumers by August 15 and we believe this model should work.

The reason e-commerce works is the ability of the company to store the goods

BUSINESS HAS TO BE DONE BY BATTING ON THE FRONT FOOT

and deliver them much more cheaply than traditional retailers, who have to bear the cost of setting up stores.

I don't agree. Currently the delivery model (of an e-tailer) and the cost of acquiring a customer is much higher than running a retail store. You can bring this down by scaling up. I think scale is not yet coming in

Why do you feel e-commerce will not be able to stay ahead in the price war?

I am not saying that. I am saying that any business needs volumes and every new business needs a delivery model which has to be much better in terms of costs and efficiencies (than existing ones). It is a journey which has just begun. There has been some success by some players, but the jury is not yet out on when do you reach that scale, when do you work out a cost which is the right cost at which to do this business.

How do you see the future?

Nothing is permanent. Business has matured a lot in the last three years. It is not just knowledge which is going to help business, but wisdom as well... People are taking rational and good decisions. If you look at the fashion business this spring/summer season, if you look at every store, the collection is absolutely new. You will not see old merchandise anywhere. Consumers want new merchandise. The businesses have matured significantly.

Is that another way of saying that businesses did not respond well earlier and, therefore, went through trouble in the last few years?

Nobody knows what the right thing is. Everybody is discovering e-commerce... It is a journey. Sometimes in India, the journey takes a little longer than expected. Sometimes the consumer matures earlier than the retailer and sometimes the retailer, looking at consumer responses, matures earlier. Both go hand in hand.

Is this a good time for young entrepreneurs to set up businesses?

I have been a passionate entrepreneur. I believe in entrepreneurship. I believe entrepreneurship is the only thing which can drive India to its economic power or growth. And entrepreneurship has to be encouraged in a country of 1.2 billion-plus people. We are a country with a lot of self-employed people and we have to encourage that. It goes without saying that without entrepreneurship this country can't reach its glory.

What are the kind of things we could do more? What are the things you would like to see that could make the business environment better?

As a society we had very few resources earlier. We were always conservative in terms of taking risks, and as a society too we ridiculed failure... We need to change our approach, take risks and recognise failure as a stepping stone towards moving to the next level. That is where entrepreneurship will get encouraged and people will try to take more risks. Second, capital availability for a new entrepreneur is a challenge. We will have to fix it in a way entrepreneurship can be further nurtured. We can create role models, mentors, help entrepreneurs grow.

PHOTOGRAPHS BY RACHIT GOSWAMI

INDIA CAN'T BE A MAJOR ECONOMY WITHOUT CONSUMPTION GETTING A BOOST

What is it about India that inspires you or gives you faith that you have invested in business?

India is a young, democratic country. The younger generation wants more than what its parents possessed. It is becoming more competitive. We have moved into consumerism. The new media is also impacting consumption significantly. People are aware. Nobody can reverse the aspirations of 65 per cent of India, which is below 30 years of age. That is what is going to drive consumption.

That is what you bet on?

We, as marketers, can influence consumption. We have done it earlier. I don't think India can become a major economy without consumption getting a boost. It is the consumption which is helping economic growth, whatever we currently have. ◆

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SANTA IN THE SOUDHA

Chief Minister Siddaramaiah begins on a populist note.

By K.R. BALASUBRAMANYAM

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"Karnataka has not got even the investments it should have in the normal course because of the instability and corruption of the BJP government"

Siddaramaiah,
Chief Minister, Karnataka

When Tamil Nadu Chief Minister J. Jayalalithaa promised free laptops to students if voted to power two years ago, she probably didn't realise she was sparking a political trend in the country. The Samajwadi Party's Akhilesh Yadav rode to victory in Uttar Pradesh on the same plank last year and now the Congress party has come to power in Karnataka on the back of the same populist promise.

But free laptops/digital notepads are not the only freebies Karnataka's new chief minister, Siddaramaiah, is offering. The mass leader kickstarted his term on a populist note by announcing giveaways worth ₹4,410 crore, mostly targeted at marginalised groups who account for almost a

fourth of Karnataka's 60 million people. The government has also doubled the subsidy it doles out to the state's 23 lakh cooperative dairy farmers, waived loans to deprived sections and announced a monthly 30 kg rice quota for the poor at ₹1 per kg. The milk subsidy bill will be ₹496 crore a year while the rice scheme will mean an additional burden of about ₹500 crore.

The killer promise in the manifesto is free round-the-clock electricity supply to the farm sector. The state already provides six hours of free power to farmers, which is estimated to cost the exchequer about ₹5,500 crore this financial year. The subsidy burden will jump threefold if the government sticks with its election promise. But the chief minister is undaunted. "We drafted the election manifesto only after assessing the availability of resources in the government," Siddaramaiah told *Business Today* in an interview. "We will begin with some programmes in the first year, and stagger the rest over the reminder of the term. We will implement all our promises in four years."

But the freebies are probably a worthwhile investment for the Congress ahead of the general election. The party has been battered by allegations of corruption while the economy is in the throes of a slowdown. It needs all the support it can get from rural voters if it wants to come back to power in New Delhi, especially with the opposition baying for its blood over the so-called Coalgate and Railgate scandals. They involve the allotment of coal mining blocks and bribery allegations over a railways post.

The Congress win in Karnataka has certainly boosted the party's morale but is not necessarily a ringing endorsement of its politics. It is actually a vote against the Bharatiya Janata Party (BJP) whose image was dented by allegations of corruption during its five years in power. Its reputation was hit by a massive illegal mining scandal that triggered a ban on iron ore mining. Voters were fed up after the party landed in one scandal after the other and, changed two chief ministers in five years: B.S. Yeddyurappa was forced to quit after the Lokayukta accused him of corruption in its report on illegal mining in Bellary. Yeddyurappa denied the allegations. Anti-BJP sentiment was also high because the party was seen to be busy fixing its own affairs instead of paying attention to governance.

The toughest challenge will be balancing the populist schemes without hurting the state's finances. Karnataka does not have a revenue deficit and its fiscal deficit is under control, but the state's economy is not in great shape. In 2011/12, its economic growth is estimated to have lagged the country's GDP growth by close to one percentage point. "I left behind robust finances. But the BJP regime destroyed it," he told *Business Today*. "Now I have to restore financial discipline. The debt burden has gone up, because resources have not been mobilised properly."

Siddaramaiah is no novice. The 64-year-old former deputy chief minister has presented Karnataka's Budget seven times, and is credited with successfully implementing the value-added tax (VAT) in Karnataka ahead of many other states. "Karnataka has not got even those investments it should have got in the normal course. This is because of instability and corruption in the BJP government," the chief minister said. "The government did not treat investors properly, forcing them to look elsewhere for opportunities. Now I am going to talk to large companies and persuade them to invest here."

Karnataka's industrialists are optimistic. Toyota Kirloskar Motor Vice Chairman Shekar Viswanathan does not support loan-waivers, but backs populist programmes as long as they reach targeted sections. "We may see some increase in taxes, which is only to be expected. Having seen him in the past, I am sure Siddaramaiah will display great

GOODIES GALORE

What to expect from the new Congress government

Free laptops/ notepads to all class 12 students

Free round-the-clock power to farmers

Poor families to get 30 kg of rice a month at ₹1 per kg

Drip irrigation to get 100 per cent subsidy

Interest-free soft-loans up to ₹2 lakh for farmers

Subsidy to milk producers of ₹4 per litre

The state's poor people to get a housing subsidy of ₹1.25 lakh

"Karnataka has lost a little of its IT momentum"

Karnataka's new Chief Minister, Siddaramaiah, discusses his government's priorities with **K.R. Balasubramanyam.** *Edited excerpts:*

Where does Karnataka stand as an investor destination?

Karnataka hasn't got even the investments it should have in the normal course because of the instability and corruption of the BJP government. I am going to talk to large companies and automobile industries, and persuade them to invest in Karnataka.

For the full interview, go to www.businesstoday.in/cm-sid

How will you handle the mining issue?

The subject of mining is before the Supreme Court. Once it is settled there, the government will come up with a comprehensive policy. We will not allow mining for export to other countries, but will supply the ore available first to steel industries within the state, and then to industries outside the state.

What is your approach to the IT sector?

Traditionally, Karnataka enjoyed the upper hand in the export of information technology services. However, the state lost a little of its momentum after Andhra Pradesh and Maharashtra picked up. I will step up our efforts.

Your manifesto promises a lot. Where will you find the resources?

We drafted the manifesto only after assessing availability of resources. We will implement all our promises in four years.

"BJP government was seen predator

The Congress spokesman in Karnataka, Rajeev Gowda, speaks to **Sebastian P.T.** *about the challenges facing the new government. Edited excerpts:*

On the investment climate in the state:

Karnataka had a very good investment climate during S.M. Krishna's tenure as chief minister. In the last few years, however, the government has been seen as predatory. The focus was more on extortion with permits not being given on time, inconsistencies in notifications, and so on. There has been no predictable environment (for investors) to operate in. That needs to change.

On agenda Bangalore:

Under the BJP we have ended up as a garbage city from being a garden city. We need to do a few things such as scientific management of waste, and fix the existing systemic incentive problems.

On youth and skill development:

The Congress and other parties have talked about giving free laptops, tablets and the like. These are not just freebies, but can remove the digital divide in Karnataka. However, it is not just about access to the poor. It is about creating a strong educational system that can cater to the job needs of a changing world.

On cleaning the mining mess.

Well, there are mining barons across party lines. If mining can be managed in a legal, environmentally respectful manner, it is a legitimate source of economic growth. We must find a way for that to happen and not allow the pillage that took place.

For a more detailed interview go to www.businesstoday.in/rgowda

maturity in handling finances," he says. Biocon Ltd Managing Director Kiran Mazumdar-Shaw has urged the chief minister to appoint a minister exclusively for Bangalore where, according to her, infrastructure development suffered under the BJP. "We have to now get into execution mode," she says. "I have requested the chief minister to form a Vision Group under (Infosys co-founder) N.R. Narayana Murthy. We can bring a lot of expertise to solve the problems in Bangalore... Siddaramaiah is a capable administrator. We hope he will bring about a positive change. ◆

"I've requested the CM to form a Vision Group under Narayana Murthy. We can bring a lot of expertise to solving the problems"
Kiran Mazumdar-Shaw, CMD, Biocon Ltd

Send your comments to editor.bt@intoday.com

For earlier story on Karnataka, go to www.businesstoday.in/archivesjun0913

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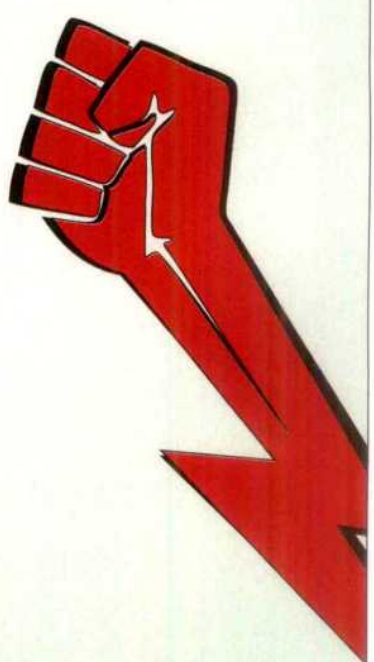

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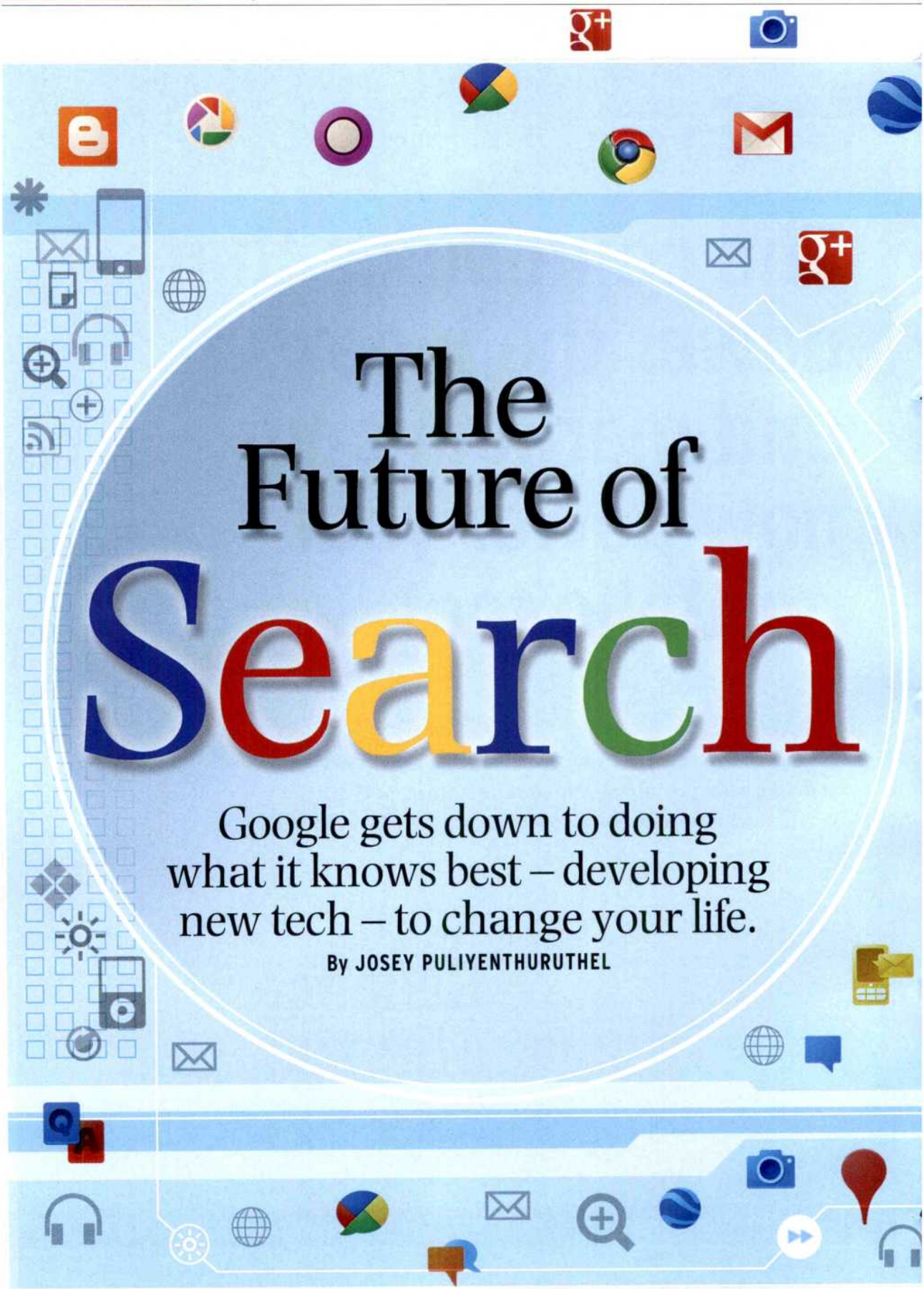

The Future of Search

Google gets down to doing what it knows best – developing new tech – to change your life.

By JOSEY PULIYENTHURUTHEL

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At a well-built six feet, Nikesh Arora commands a presence when he walks into a room. Much of it is also because he is the man tasked with bringing in revenues of more than $50 billion – that is more than Punjab's annual income – at Google, the Internet giant.

On a recent unusually hot Thursday evening, the Google Chief Business Officer drags his weary self into a meeting at a New Delhi coffee shop. The six days he's been in the city he was born in have been unforgiving. Breakfast sit-downs, board meetings, sales reviews, client interactions, dinners, and family commitments. Arora is sapped out criss-crossing the capital region of Delhi, the world's largest urban sprawl, in the searing summer heat.

But before his cold coffee with ice cream arrives, the 45-year-old perks up pointing to his Nexus smartphone. Google Now, an application growing in popularity, has just told him that his flight out to Boston that night is two hours late. An unexpected open window on a tight calendar is a bonanza for any corporate road warrior and Arora is all smiles. Google Now is among the latest of search-based offerings from the world's biggest new-media firm. It scours your calendar and your work and personal patterns, and meshes them with publicly available information such as traffic, weather, and events to assist you in your daily life. Alerts warn you of a traffic jam on your regular route to work or the blustery weather in the city you are flying to.

Google Executive Chairman Eric Schmidt thinks it is business as usual. "Google's aspiration," he says, "is to be your assistant, to know what you don't know and to get that information to you in whatever way it is quickest." (See Schmidt's interview on page 56.) Comparisons with periods of big economic transformation show that Schmidt's is a self-effacing view.

If the steam engine was the prime mover of the Industrial Revolution, search lies at the heart of the Internet. And, Google is doing to the

"The last wave of technology creates a platform for the next"

Interview:
Nikesh Arora
Senior Vice President and Chief Business Officer, Google pg 52

"Our bet is on innovation. We will innovate at the same pace, if not faster"

Interview:
Eric Schmidt
Executive Chairman, Google pg 56

5 years

The time it will take for two billion new users to get on the Internet. Mostly via mobile phones. It took 22 years for the first two billion

Internet today what Boulton & Watt – the firm through which James Watt commercialised steam engines – did to travel in the UK and the rest of the world. Except that Larry Page and Sergey Brin, Google's founders, are playing at a much bigger table. McKinsey & Co., a firm of consultants, estimated late in 2011 that, the slice of global gross domestic product that the Internet accounts for is 3.4 per cent, or about $2 trillion, and already bigger than agriculture or energy.

Just as the possibilities with a product such as Google Now are enormous – imagine its potential when overlaid with social networks – Internet search is exploding on multiple tangents. Driving that change almost singly is Google. That at a time when some believe the golden era of the Internet is just beginning. "The rate of improvement in search is accelerating at an unprecedented pace," says Amit Singhal, who heads search at Google. "...search is closer to human understanding of [language] and we are just starting this journey." On May 15, at a conference for developers that it calls Google I/O in San Francisco, CEO Page told 6,000 attendees he believed Google and the broader tech industry has achieved just one per cent, or less, of what was possible, a view that resonates in *The New Digital Age*, a recently released book that Schmidt co-authored. It took over two decades for two billion people to get on the Internet; the next two billion will come on board in five years, believe experts.

For earlier stories on Google, go to www.businesstoday.in/archives-jun0913

Search to Assist

To understand the scope of the change that Google is readying, you need to be embedded at the top echelons of Googleplex, its Mountain View, Santa Clara, California headquarters. Or, get as close with deep-dive interviews with its top executives and people who transact with the company as clients, users, partners, consultants, and rivals.

From a one-trick pony in September 1998, Google has become a company with dozens of products, services and applications (see **bit.ly/ggltimeline**). It is what Martin Sorrell, Chairman of WPP, the world's biggest advertising group, calls a "five-legged stool" referring to its multi-tentacle presence in web search, display advertising, video, social media, and mobile search.

That makes Google's reach unparalleled. Data trackers such as Statcounter have already declared its Chrome browser as the most used web browser in the world; others think it is behind Microsoft's Internet Explorer and Firefox but not far away. Google's Android operating system powers over 750 million smartphones and is adding 1.5 million users every day. At the Google I/O event, bloggers cheered Google Play Music, which allows all-you-can-listen-to-music for $9.99 a month, new photo tools with Google+, and enhanced features on Google Maps (see **bit.ly/gglio**). But the surprise announcement: downloads from Google Play, the Android applications repository, had touched 48 billion, closing in on Apple's AppStore – the gold standard in the apps business – which just that midnight announced it had crossed 50 million downloads.

Singhal elaborated on his company's "fast is better than slow" phi-

IT IS WHAT ADVERTISING MOGUL MARTIN SORRELL CALLS A "FIVE-LEGGED STOOL" REFERRING TO ITS MULTI-TENTACLE PRESENCE IN WEB SEARCH, DISPLAY ADVERTISING, VIDEO, SOCIAL MEDIA, AND MOBILE SEARCH

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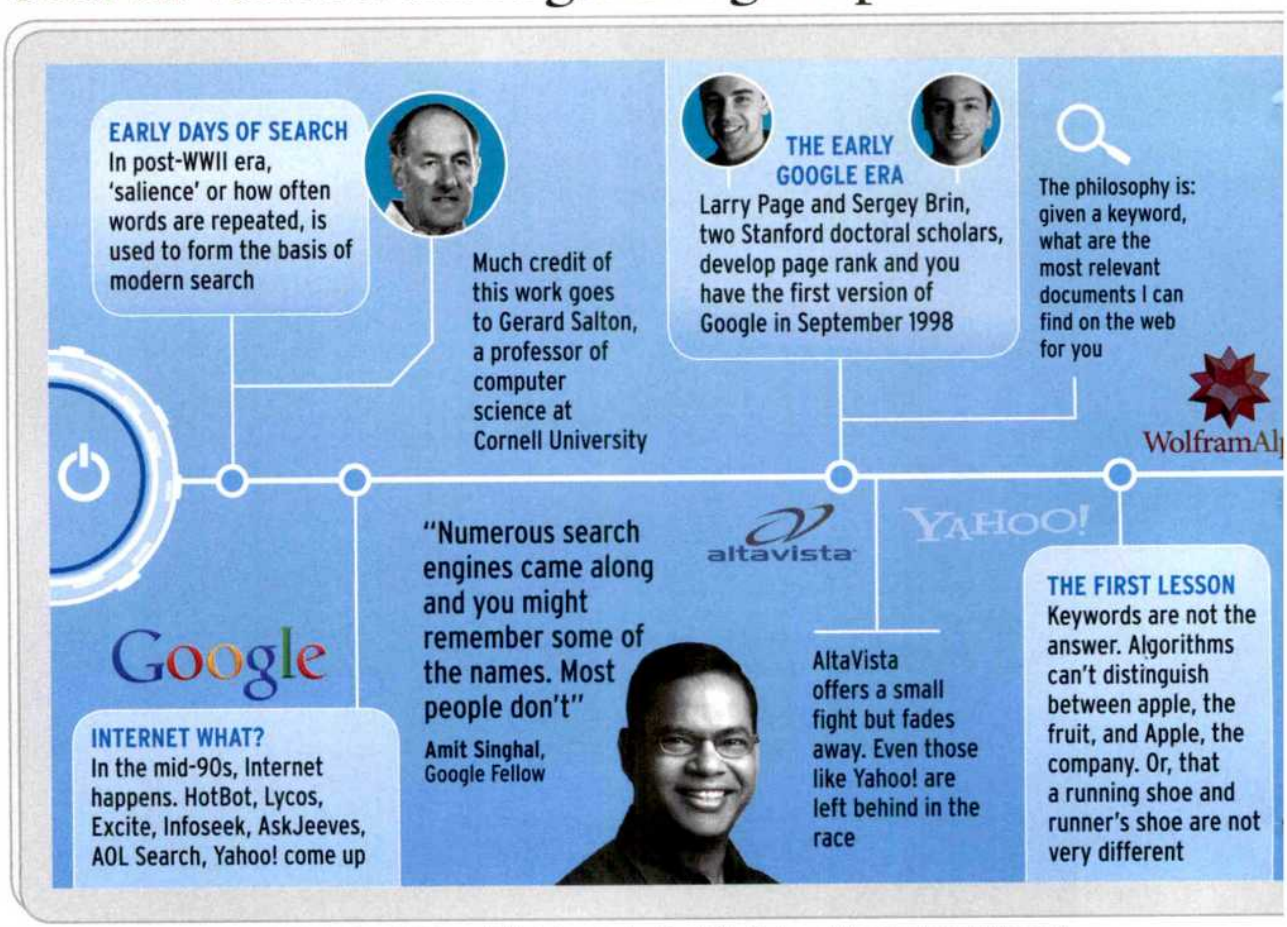
"WE AT GOOGLE INNOVATE AT A BREAKNECK PACE BECAUSE INCREASINGLY THAT'S THE ONLY WAY TO SURVIVE"

losophy in a mid-April interview. "We at Google innovate at a breakneck pace because that's the only way to survive. So, last year we made over 600 changes to our search algorithm... twice a day we are launching a change," he said on a Google Hangout video chat with *BT*. Incremental as that may seem, the search experience has dramatically changed in the last 18 months or so – going from serving you information you are searching for to proactively alerting you as in the case of Google Now. Arora calls this a "search to assist" change and says the next step will be "suggest", where Google will recommend what you can do. (see Arora's interview on page 52).

Much of this has been made possible with the introduction of so-called semantic search techniques. Shorn of jargon, semantic search is based on principles that mimic conversational language and human logic behind them. For instance, a search query like "how has the polio vaccine programme in eastern Uttar Pradesh fared" would return results with keywords that best match that search string. But with semantic search capabilities that it brought on board with the July 2010 buyout of Metaweb, one among its some 125 acquisitions to date, Google knows the query is likely around the botch-ups in the immunization drive in recent years.

Such a result is so much more relevant and follows the first of its 10-things philosophy **(bit.ly/ggl10things)**, focus on the user and all else will follow. The added garnish to this is what Google calls Knowledge Graph, a database it picks from when you query a person, place, or some other 'object'. This is presented as a box on the right side of the screen in an easily consumed set of photos, factoids and links. You are likely to have seen it but google Amitabh Bachchan or Tirupati in case you missed it earlier. And, such capabilities will play an increasingly

Search viewed through Google's prism



Note: Based on interviews with Amit Singhal, Google Fellow; and Nikesh Arora, Senior VP and Chief Business Officer, Google; and *BT* Research

bigger role in the months and years ahead. "Many derivative features are in the works," says Singhal.

To be sure, other search sites such as Wolfram Alpha deliver similar functionality but with nowhere near the reach and impact of Google.

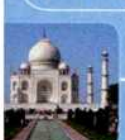
"Think 10x"

Next on the horizon for Google – and this is based on what its executives are willing to talk about, not the under-the-hood work it does – are projects that could translate into big leaps for the company. The company has had a history of making bets on new products and services even when some failed. Examples are Google Wave, Google Buzz and, to an extent, the severely underperforming Google+ (pronounced Google Plus). Schmidt contextualised it in an interview late March. "I think it is fair to say that we make mistakes and we make mistakes all the time. But the secret is to recover from them quickly," he said. And, at times, it seems like Google doesn't care what others think. To date, the financial analyst community doesn't have a clear answer to the question how exactly Google expects the $12.5 billion it spent on gobbling Motorola Mobility for its 17,000 patents to be accretive to its earnings.

Ever since Page took over as Google CEO in April 2011, the company has been focusing on the really big leaps it can make. Co-founder Brin spends much of his time at the ultra-secretive Google X labs, which have developed products such as the self-driving Google car (click through **bit.ly/ggicar** for a nearly blind man at its wheel) or Google Glass, a spectacle frame mounted wireless computer that works on voice and touch commands. "When you sit

THE POWER OF SEMANTICS, CIRCA 2003 TO 2007

Google moves search from mere keywords to logic and structure of the language. There were others like Wolfram Alpha but brute presence saw Google get ahead



SOMETHING MISSING

Google still can't understand a word like humans do. Answer: Knowledge Graph, a database of 600 million 'objects' (people, places, things...) meshed through 3.5 billion relationships. The challenge: how to scale it up

THE JOURNEY FROM THOUGHT TO QUERY

Next, Google goes into predictive mode via Google Auto Complete. This was magic to Singhal & Co.'s eyes. For a short while

SEARCH GLASS

Google Glass has a screen on a spectacle frame with a tiny embedded wireless computer that answers user's voice queries

SEARCH TO ASSIST TO SUGGEST

Google Now, a personal assistant app, works magic with your calendar, daily patterns, maps, public information

COMING SOON...

SPEECH RECOGNITION, SEARCH

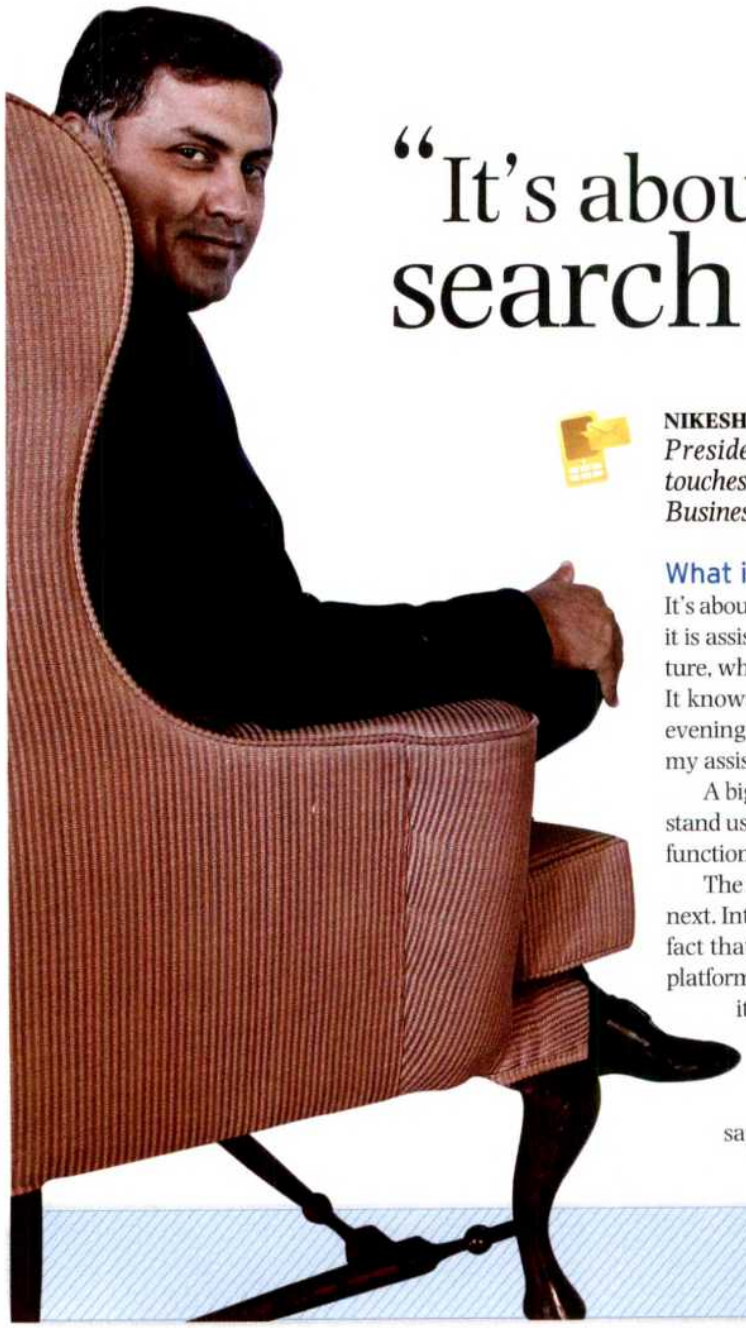
Despite work of three decades, goals in speech recognition remained elusive. Until now. Several strides have made Google ready to take voice queries in a few languages. This is potentially transformational, especially among the illiterate masses

JUGGAAD IN VIDEO SEARCH

Google's innovation in video search: generate a transcript via speech recognition and query for a given search string. Neat.

MOBILE SEARCH, ADVERTISING

The combination of consumer demography, location, surfing history and commerce makes for search and ad options with compelling RoI



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"It's about going from search to assist"

NIKESH ARORA, *the New Delhi-born Senior Vice President and Chief Business Officer at Google, touches upon a variety of topics in an interview with Business Today. Edited excerpts:*

What is the future of search?

It's about going from search to assist. Look at Google Now: it is assisting me. Before I search, it tells me the temperature, what the traffic is on the way to my parents' home... It knows that's the trip I'm doing every morning, every evening. There are some things it is intuiting by itself, it is my assistant... This is us going from search to assist.

A big shift from search to assist requires you to understand users. Search is a demand function, assist is a supply function. Supply requires a lot more artificial intelligence.

The last wave of technology creates a platform for the next. Internet came and created a platform for search. The fact that ubiquity of broadband came about, it created a platform for YouTube... Android is a wonderful platform, it has 400-500 million users, which lets create a new wave from it. Apple made the apps. Five years ago if someone said, there will be no HTML pages and there will be only apps, one would say – he is smoking something.

and talk to Larry he talks about how you have to think 10X as opposed to 10 per cent," says Arora, the Google head of sales. At a recent meeting at Las Vegas of Google's 13,000-strong sales team, the message from the leadership was consistent. "We talked to people to think 10X, we talked about taking more risk, we want people to move out of their comfort zone.... Otherwise you are doing a functional day job, you are not thinking about change," says Arora.

No one at Google will spell out what shape exactly the new bets will come in or when new products or services will be rolled out. But unstructured answers to structured questions reveal some. Speech recognition is a prominent light flashing on Google's dashboard, for instance. "In video search we are investing heavily in speech recognition and so on so that you will be able to find things that you want even if they are not 'transcribable'," says Singhal. What he is referring to is the "transcript" button increasingly popping up on YouTube videos that allow you to read lines of text representing

SPEECH RECOGNITION IS A PROMINENT LIGHT FLASHING ON GOOGLE'S DASHBOARD

How big is the mobile advertising opportunity?

The mobile is not a smartphone, not a tablet. Mobile is location and context... The moment my context changes, the way I interact with content will also change. Therefore, the way advertising happens should also change. So, context and location become the future... to extract the full value of mobility you have to make sure that context and location come together. The ability to track location gives context. With context, you can change advertising. So, what I am saying is that mobility is an added layer of context and location. It is not being used in that way today. We are in the very rudimentary stages of saying this is the way we advertise for the web; let's move that to the mobile device.

Advertisers walk in and say, I want to interact, to engage with the end user. The way to engage with the end user is to engage with them in their context. So, yes, mobility is a huge opportunity. The more targeted and more precise the advertising is, the more it becomes like information. The more advertising becomes like information, the more value it has for the end user. And, the more advertising becomes like information, the more the advertiser is going to get return on investment out of it.

How far away are we from that?

(We are) just scratching the surface... We announced a few months ago this notion of an "enhanced campaign"... It hasn't gone too far. Everybody understands the concept but they still want some more control.

Is Google Glass the next big form factor in computing devices?

I don't know. It's a platform. It requires a lot more applications to be created, etc. It's very early to call. ...the whole category of visual information and processing has not reached where textual processing is.

Tell us about local language Internet.

Lately, we have been working on technologies to get Indian languages to play a broader role. Again, the challenge is that I am pretty sure that 95 per cent of people who have access to technology are using it in English.

Still, could local language Internet be the game changer in India?

If you were to rank order and say what comes first, I still think ubiquity would be first. The more prevalent, the more omnipresent access is, the more likely you will see its uptake. I think mobility and ubiquity fall in the same category. I don't think language is as much an issue as local information.

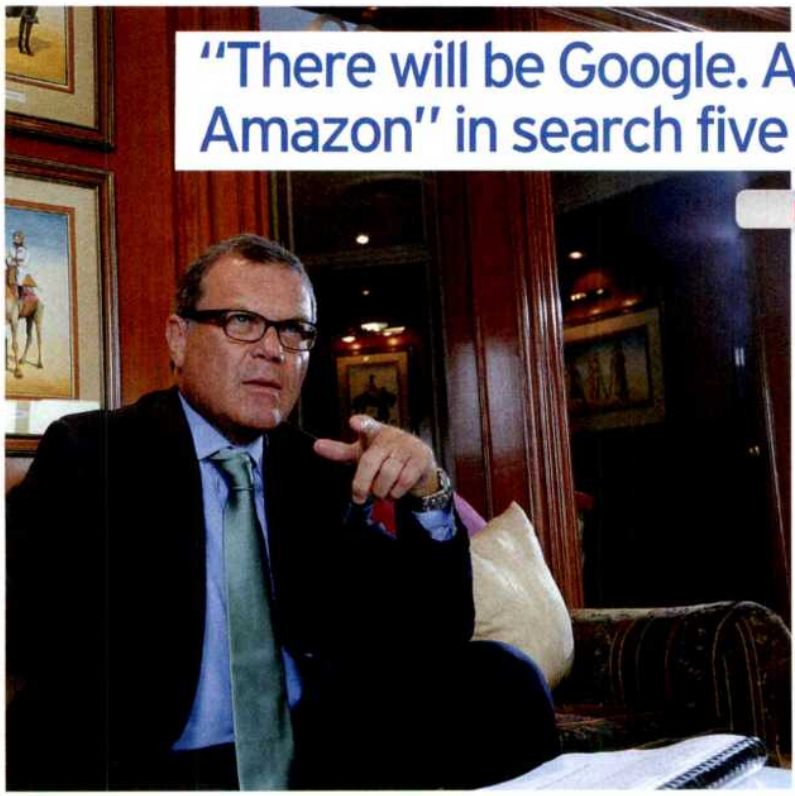
What are the under-the-hood things at Google X?

If it is under the hood, I can't tell you anything about it. It is a broader philosophy. It's the idea of improving something 10x by looking at something completely out of the box, getting out of your comfort zone, and trying to disrupt or trying a tremendous amount of technology and resources to see if you can create a new different business model. People like to make it out as if it is this big AT&T Bell Labs or something. It's not. It's a bunch of people having fun trying out crazy stuff. ◆

the audio complete with a time stamp, if not the entire transcription. "There are a lot of challenges... (but) if someone will do it, we will do it. Period," insists the Indian Institute of Technology, Roorkee alumnus.

Sophisticated speech recognition tech is what voice search is built upon. With the next two billion Internet users mostly set to come on via handheld computing devices – smartphones or tablet computers – Google is readying technology and business models that address potential needs of mobile customers. It already owns AdMob, the biggest ad serving platform for mobile phones, and the future of that business (already worth some $2.2 billion in revenues for Google) depends on how many more users it can get on. And, as Internet use takes root among non-English speaking audiences – India's 150 million Internet users, for instance, exceed its number of English speakers – voice search will be the silver bullet for anyone with ambitions of gaining big custom.

"Imagine a poor family in India in a village which only has a cell-



VIVAN MEHRA/www.indiatodayimages.com

"There will be Google. And, then, Amazon" in search five years from now

Martin Sorrell, Chairman, WPP

phone and that will be the first connection to the Internet. It cannot really type, and speech recognition with all the power of Knowledge Graph will tell the members things they need to have a better life," says Singhal. Corollaries to that scenario are real-time translation and transliteration opportunities that can potentially obliterate language differences. India, a country with about 400 languages and 2,000 dialects, will solve its education and information challenges, reasons Chairman Schmidt, not by having content in the local language but by ubiquitous translation. "The translation technology is at a point where you speak in one language and the translation comes out in some other language," he says.

Mobile, mobile, mobile

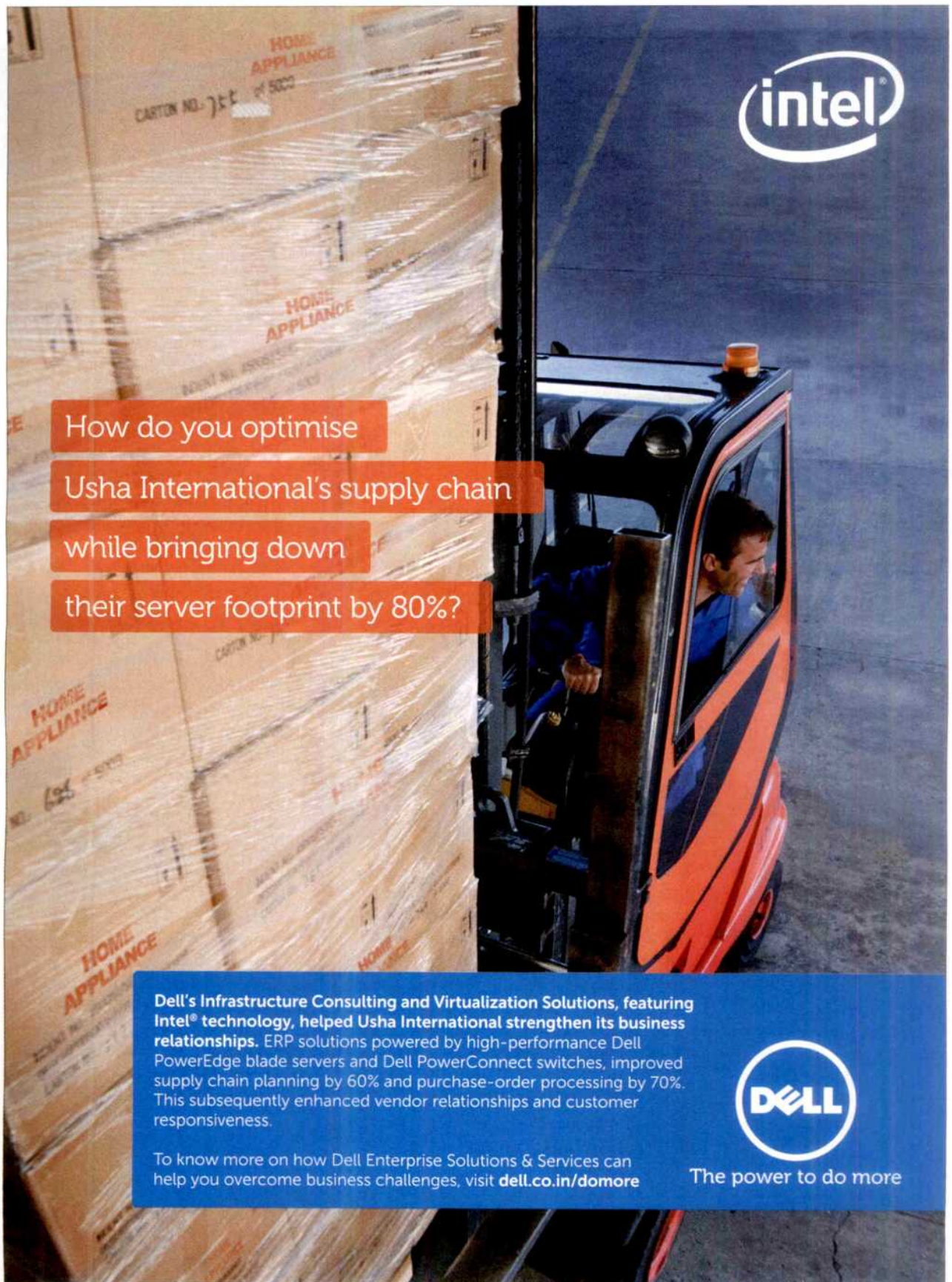
It may be difficult to imagine a Mumbai taxi driver from Kalol, searching for a review of director Ram Gopal Varma's latest movie, *Satya 2*, in Telugu, via a Hindi voice query and the search engine translating it from a Hyderabad glossy for playback in Marathi on speakerphone for the benefit of his buddies at his taxi stand.

Easier to extrapolate are customer experiences on smartphones today. Already, data tracked by Google show 38 per cent of visitors from India to YouTube come via smartphones. And, that is not a small number given that YouTube, which Google acquired in 2006, counts about 50 million customers from India. The broader Internet numbers are even more compelling. By 2015, McKinsey believes, the number of people accessing the Internet from India will double to 300 million. One big draw for the 150 million additions will be entertainment and sports videos, posits Rajan Anandan, the India head for Google. "TV reaches only 500 million people. With a population of 1.2 billion, it is clear that most Indians will watch TV through the Internet," he says.

Critical to such countrywide consumption are low-priced, third-generation, high-speed data services and the fourth-generation service planned for later this year by the likes of Reliance Jio, controlled by Reliance Industries. For an indication on which way the market will turn, meet Nisha Madhulika, a housewife-videopreneur. This resident of Noida, a satellite city to the east of New Delhi, makes some ₹15 lakh a year through ads on her YouTube cookery channel. She started with a blog in 2007 and turned to YouTube after readers of her blog suggested that she start a video channel. She has invested in HD-quality cameras and gives English sub-titles to her videos, and plans to spend more because "the Internet business will grow 10 times in the next two-three years". Just out of a recording, she says, "Our kitchen is small, I will make the set better."

Driving and adding to video consumption in India is the dropping price of smartphones and tablet computers on the one hand and, on the other, India's young and growing millions of digital natives. Earlier in May, Nokia breached what many believe is the psychological barrier in smartphone prices: $99, or ₹5,400, before taxes for its Nokia Asha 501 model. Tumbling smartphone prices boosted their sales to 15 million in 2012 and International Data Corp has forecast sales at 28 million this year. Anandan expects that to shoot

"THE INTERNET BUSINESS WILL GROW 10 TIMES IN THE NEXT TWO-THREE YEARS"



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TABLET COMPUTERS HAVE ALREADY BREACHED THE ONE MILLION MARK IN QUARTERLY SALES

up in 2014 by when he expects smartphones priced at under ₹3,000. Ditto for tablets that have already breached the one million mark in quarterly sales, after several sub-₹10,000 tablets, notably the Aakash 2, were launched last year.

The swelling numbers – including some 11 million desktop and laptop computers sold a year – promise to change the search landscape in India, say industry insiders. The dominant share of smartphones, says Naveen Tewari, Founder-CEO of InMobi, will tip the scales in favour of contextual search and advertising based on user location. He says pilot campaigns in India serving ads on mobile phones synchronised with TV spots by the same advertiser were three times more effective than without the mobile ads. In anticipation of multi-platform campaigns, Google has launched an "enhanced campaign" offering that helps address advertising needs on multiple screens. "We took away the notion of advertising on mobile or desktop and said, 'Put money from this end and get RoI at the other end.' And let us figure out based on location and context what is the best way to advertise it," says Google's Arora. (RoI is short for return on investment.)

Others want a share of the online and search riches, as well. Notably, Facebook that unveiled its "graph search" to search people, photos, interests and places on its mega social network this January. The big shift in search, says ad mogul Sorrell, could be influenced by someone other than Google. "There will be Google. And, then, Amazon," he says when asked about the future of search five years from now. Sure, it counts shoppers at nearly 200 million shoppers and is the world's most successful e-tailer by far, but isn't thinking of Amazon as an advertising rival to Google imagination running riot? I am confused, I say. "Why are you confused," Sorrell booms on the phone from New York. "Well," I say, "I trust Amazon and, sure, I will purchase diapers for my child from there but... ." "There! You have answered your question," Sorrell interjects, implying it is just a matter of time before Amazon serves ads to customers loyal to it.

But for that ominous voice, Google's headed to change the world. Again. ◆

ADDITIONAL REPORTING BY SUNNY SEN

150mn

New Internet users in India by 2015, doubling the user-base in the country. They will primarily be drawn in by video and will use voice-based search

Send your comments to editor.bt@intoday.com

Google Executive Chairman **ERIC SCHMIDT** *has a big role – some say, the biggest role – in getting the company to $50 billion in revenue. Schmidt joined Google in 2001 as* CEO. *Over the next decade, he made the right bets as the Internet grew, attracted top talent and took Google public. In 2011, he made way for Larry Page as* CEO. *On a recent trip to India, his first since he joined the company, Schmidt spoke with* Business Today *on the India business, the evolution of local language search, and the Steve Jobs he knew. Edited excerpts:*

Was there a moment or two in the last 10-11 years when you thought search could change the world in a way you never thought before?

I don't think I understood how powerful information was until I began to see the use of Google in popular media. YouTube was a partner in the 2008 elections with CNN, and I went to this debate. I was really surprised by the arrival of technology in mainstream. Today, we take it for granted... Google's aspiration is to be your assistant, to know what you don't know and to get that information to you in whatever way is quickest, whatever technology will allow, and I think it is very powerful.

Some industries think Google's intention is to be the master...

Google is careful to define its mission as a ranker-organiser and not as a judge. We don't want to restrict information. We want to give you more choices and then you choose.

Considering India is probably the third-largest Internet user base, will be second in two-three years...

It's going to be amazing. Just do the math.

The fact that there are so many languages act as a barrier or challenge, and ther

"Voice and image recognition will be more important for languages"

VIVAN MEHRA/www.indiatodayimages.com

there is literacy...

Literacy is very easily solved by mobile phones. Give phones to someone and they will learn to read, because you have all the software on it... And the language issues, our machine translation technology is getting so good that it should be possible to do 100 per cent high-quality language transfer from all 26 languages, not now, but over time. I understand the language thing is very, very real. There is no unified language here in India. I also understand that not everyone speaks English... The translation technology is at a point where you speak in one language, and the translation comes out in some other language. It is just getting better.

Do you see voice as an enabler?

We would argue that Google's voice analysis software is the best in the world, better than (Apple's) Siri and so forth. Google Glass is controlled by voice, you talk to it, (and) it is able to recognise it. Voice and image recognition will be more important for languages that do not have very good keyboard solutions. So Google and some other companies are working on image recognition on dialects and some of these solutions.

Do you see in two-three years, a non-English speaking Indian speaking to a Google phone?

Sure. And again I am assuming the language will be in the majority order. It will start with Hindi, and then move down the stack, and the 26th

THERE WAS NO BETTER PRODUCT VISIONARY IN THE WORLD THAN STEVE JOBS, IN CHOICE OF THE UNIFICATION OF USER EXPERIENCE, POWER, COLOUR, STYLE

language will be the last.

What does that mean for the business model of Google or any other search company if the market expands to that extent?

Our model is that we benefit with more users and more broadband. So narrowband users do not use Google as much as broadband (users). Broadband users click on the ads more, they consume more and the model works better. In India, there are a lot of issues – e-commerce, distribution – but all those problems are going to get solved. Our revenue is growing quite well. I won't say the number, but it is one of the highest growing countries right now. So we know that the revenue potential in India is great, and we are investing heavily here. So don't feel sorry for us, we are doing just fine. We will find ways to monetise a large audience. If you have a billion Indians, you can make money.

How is social media changing search? If Facebook, Twitter, Pintrest are not in Google search, how will it affect Google?

There is no monopoly on this kind of information. I think Facebook is going to do fine, Twitter is going to do fine, Pintrest is going to do fine. It is good to have competition. Google Plus is big enough. We get all the social signals we need. We do not need all the social signals; you just need to have some. Google Plus is clearly big enough to be a viable competitor to Facebook.

You sat on the Apple board for some years. What was so distinct about it?

There was no better product visionary in the world than Steve Jobs, in the choice of the unification of user experience, power, colour, style... I think his impact on society and the world will be historical. There are people you meet in life who are bigger and better than anyone else, and in Steve's case it was because of his unique ability to build and run things and understand the technology and also add the design component that was unconventional. And today when you look at the product you see Steve, you look at the storage you see Steve, you look at the brand you see Steve. That was his genius – certainly not a perfect man, but a great one.

VIVAN MEHRA

"Google Plus is clearly big enough to be a viable competitor to Facebook"

From an advertisement point of view broadcast is the big market to crack. When do you see the market being disrupted the way other legacy media was in the past?

Television has withstood many critics of it, and it is regulated, but it is highly popular with very high market share. I think you will see more and more multi-modal things, more and more stuff done on YouTube and then brought to TV, and vice-versa. And then there will be an economic disruption just because of pricing, because prices are high, but I think television will be there for long.

When you meet the big content generators, what is it that you tell them?

I think the obnoxious way to answer that question is say, "You need some engineers to build the platforms". It won't happen from marketing plans, and lawyers and legal plans, lawsuits and so forth, which have become a problem. The smartest people are building new kind of platforms with partners, offering editing, and so forth and they are just dealing with the reality. They are trying to figure out new markets and they are trying to monetise them... The fact of the matter is there are tablets that you can charge on – people will be consuming information on tablets... You should figure out a way to work with us and our competitors to understand how to put the information. It is your future, because your customers are moving to this new platform.

Every big tech company is making the "next big bet." What is Google's bet on?

Our bet is on innovation. We will innovate at the same pace, if not faster. The market is big enough for everyone.

What will be your epitaph?

He used Google to beat death and he failed. ◆

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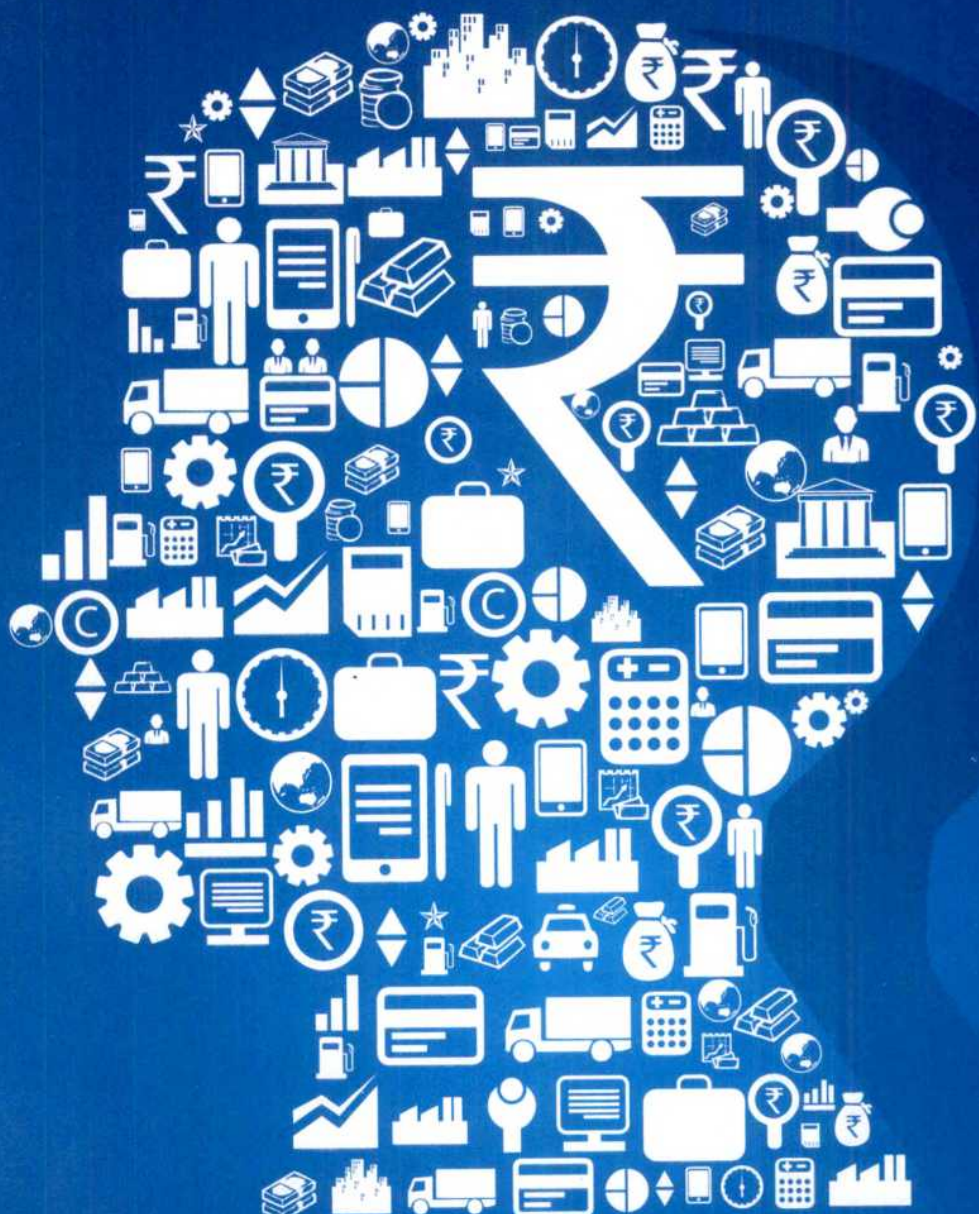

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New Delhi, June 3, 2013

TRYING TIMES

The *Business Today*-Value Research Best Mutual Fund Study 2012 profiles the funds and managers who came out on top in an uncertain environment.

Origami art by **Anurag Bhattacharya,** A class VIII student in Faridabad

The Big Picture Assets under management with mutual funds in India

(in ₹ crore)	Income funds	Equity funds	Balanced funds	Liquid/ Money Market funds	Gilt fund
2012/13	3,95,985	1,49,777	16,307	93,392	8,07
2011/12	2,90,844	1,58,432	16,261	80,354	3,65
Change*	36	-5	0	16	121

* Figures in per cent; ELSS: Equity-Linked Saving Schemes; ETF: Exchange-Traded Fund; AUM: Assets Under Management

Source: Association of Mutual Funds of India

The financial meltdown of 2008 caught many investors, who had bought mutual fund schemes in the hope of high returns, on the wrong foot. But since then, mutual fund investors have turned cautious. In the year through March 2013, the Bombay Stock Exchange's benchmark Sensex gained eight per cent. In the normal course, that should have led to an increase in assets under management (AUM) of mutual funds that invest in equities. But the AUM of equity mutual funds fell five per cent during the year as investors booked profits (see *The Big Picture*). This brought down their share in total industry assets to a tad above 21 per cent from almost 27 per cent.

Still, a handful of funds and fund managers have defied the odds. The *Business Today-Value Research Best Mutual Fund Study 2012* celebrates these successes. As you will read in the following pages, the managers who topped this year have been conservative and believe in value investing.

Overall, the mutual fund industry's assets grew by a respectable 19 per cent in 2012/13. How did that happen? It is because investors are moving their money into safer schemes that invest mostly in fixed-income instruments such as corporate bonds and government securities.

What's in store in the year ahead? For the fund managers who want to lure investors into equity schemes, the road is full of obstacles. They can't take comfort from history either – not a single equity fund in the past 10 years has beaten the Sensex or the National Stock Exchange's Nifty index on a month-on-month basis.

However, Dhirendra Kumar, CEO of mutual fund tracker Value Research, *Business Today*'s partner in the survey, is optimistic. "Despite all the gloom and doom, there are many underlying positives in the Indian economy and businesses," he says (see page 83). The Securities and Exchange Board of India has also come out with rules that will benefit the industry. Last October, the capital-markets regulator ordered fund houses to discontinue multiple plans for a single scheme to avoid confusion among investors. It has also asked fund houses to introduce schemes that investors can buy without going to a distributor or broker.

Last year, *Business Today* and Value Research reworked their methodology of arriving at the Best Mutual Funds rankings to capture better the performance of funds in this changing environment and keep pace with rising investor awareness. Our ranking classifies funds based on investors' appetite for risk, rather than by mere AUM. This takes into account two key points. One, returns matter more than the amount of money funds handle. And two, since the categories are tailored to risk appetite, there is a better chance of identifying a fund that matches with one's investment philosophy.

Sounds interesting? To learn more about the best funds and how they came out on top, turn the page. ◆

MAHESH NAYAK

For previous Best Mutual Fund studies, go to
www.businesstoday.in/archives-jun0913

ROLL OF HONOUR

OVERALL WINNERS

BEST FUND HOUSE
ICICI Prudential

BEST FUND MANAGER-EQUITY+ BEST EQUITY: AGGRESSIVE GROWTH
R. Srinivasan, SBI

BEST FUND MANAGER-DEBT
Amit Tripathi, Reliance

CATEGORY WINNERS

EQUITY: LONG TERM GROWTH
Quantum Long Term Equity

HYBRID: CONSERVATIVE GROWTH
ICICI Prudential Balanced Reg

DEBT: BOND
Birla Sun Life Medium Term

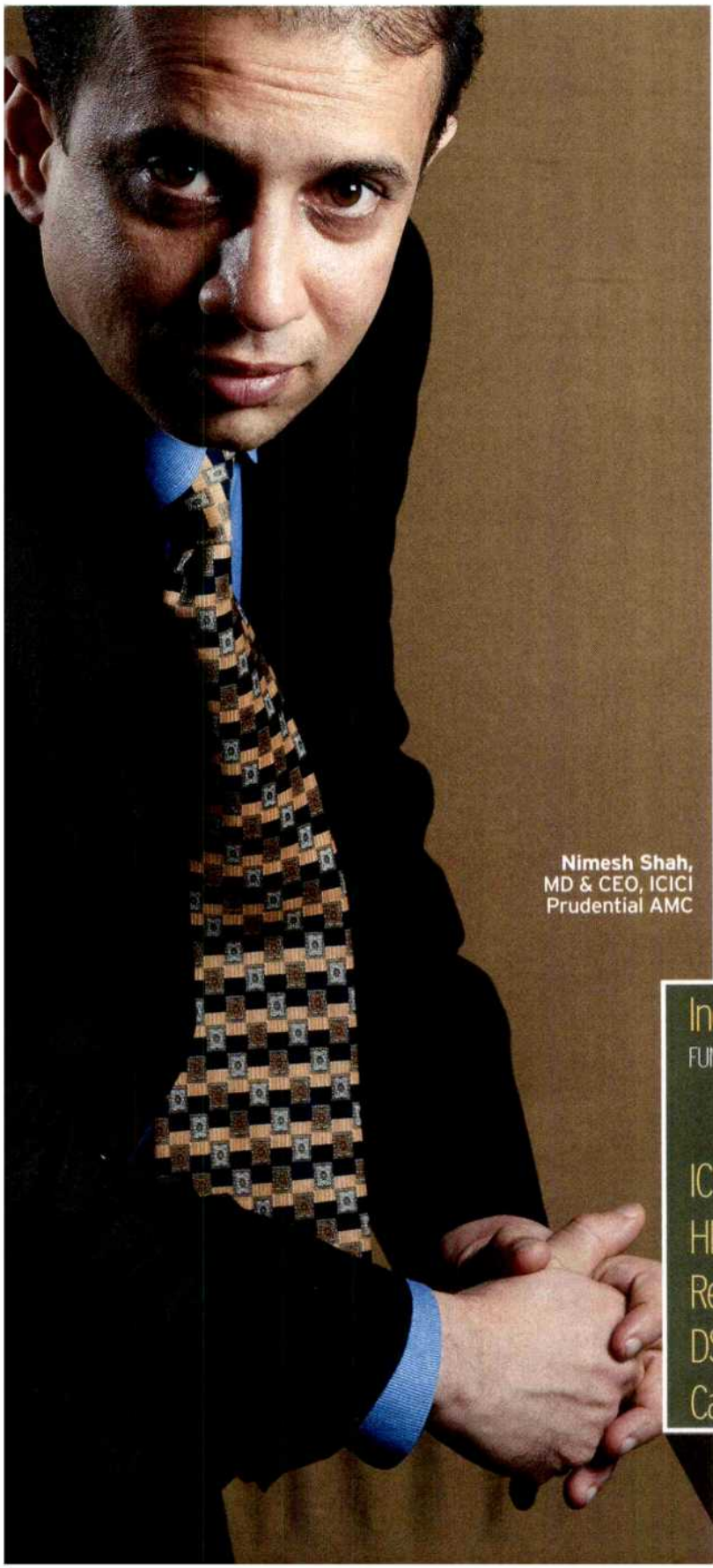
DEBT: LIQUID
JM Money Manager Reg

ELSS	Gold ETF	Other ETF	Fund of Funds (Investing Overseas)	Total AUM
22,731	11,648	1,476	2,053	7,01,443
23,644	9,886	1,607	2,530	5,87,217
-4	18	-8	-19	19

BEST MUTUAL FUNDS

OVERALL WINNERS

BEST FUND HOUSE ICICI PRUDENTIAL



Nimesh Shah, MD & CEO, ICICI Prudential AMC

RACHIT GOSWAMI

This is a turnaround story of a fund house that was known more for its big product launches, aggressive fund management and distribution strategies than consistency in performance.

ICICI Prudential Mutual Fund started changing its strategy after the global financial crisis in 2008. Mutual funds globally focus on delivering consistent performance of their products, says Nimesh Shah, Managing Director and CEO. "We felt that if we could ensure that the performance of existing funds remained consistent, inflows would come into these funds."

The change in approach has worked well for the asset management company (AMC). Eight out of 22 equity funds and seven out of 15 hybrid funds figured in the top quartile in their categories in 2012 compared with only two out of 13 equity and two out of 10 hybrid funds in 2007.

Of the 71 funds of the AMC rated by Value Research in 2012/13, 25 are either five-star or four-star funds. Five-star funds are among the top 10 per cent funds in terms of performance, and four-star ones are the next 22 per cent in a category. Its average assets under management (AUM) has grown from ₹54,355 crore at the end of March 2008 to

India's Best Fund Houses

FUND HOUSE	SCORE
ICICI Prudential	34.56
HDFC	28.57
Reliance	28.37
DSP BlackRock	28.33
Canara Robeco	28.10

Read 'How We Ranked The Funds', pg XX

Source: BT-Value Research Best Mutual Funds Study

CHANGING TACK

ICICI Prudential's game plan to catch investors' attention by focusing on consistency in performance seems to be paying off.

By DIPAK MONDAL

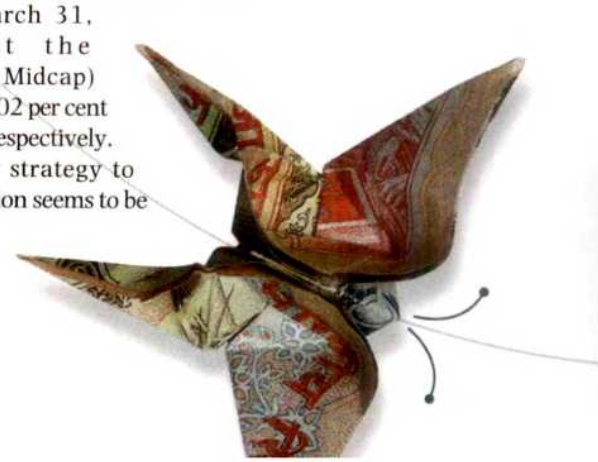
₹7,968 crore on March 31, 2013. Its AUM is the third largest after HDFC Mutual Fund (₹102,096 crore) and Reliance Mutual Fund (₹96,851 crore). "We realized that it is not necessary to hire star fund managers. It is better to focus on discipline and processes," says Shah. The fund house has developed robust in-house processes for portfolio construction, stock selection, risk-control and portfolio revision.

But the most significant change was in the fund management approach. The AMC, which had tried the absolute return approach (where the fund tries to give positive returns irrespective of the market direction) in the past with some funds, and had failed, switched to a relative return approach (where the fund performance is measured against a benchmark or category average) "Now, our focus is on relative performance and all we are trying is to beat the benchmark on a consistent basis. This way the probability of top quartile performance is higher," says Shah.

It also merged funds, which were similar in character, and cut down on new launches. In 2012, ICICI Prudential US Bluechip Fund was the only equity fund it launched.

All these efforts have helped ICICI Prudential build funds that are long-term performers. ICICI Prudential Focused Bluechip, ICICI Prudential Discovery, ICICI Prudential Dynamic and ICICI Prudential Banking and Financial Services, have emerged as consistent performers over the past three to five years. ICICI Prudential Focused Bluechip is one of the top three funds in *Business Today*'s long-term growth fund category with 7.53 per cent returns in the three-year period to March 31, 2013 against 2.7 per cent of Nifty. ICICI Prudential Discovery Fund, which figures at No. 6 in *Business Today*'s aggressive growth funds category, gave 11.29 per cent returns in the last fiscal year and 7.53 per cent in the three-year period to March 31, 2013, against the benchmark's (CNX Midcap) negative return of -4.02 per cent and -1.33 per cent, respectively.

The AMC's new strategy to catch investor attention seems to be paying off. So far, the fund appears to have walked the talk.



INDIA'S BEST MUTUAL FUNDS
OVERALL WINNERS

BEST FUND MANAGER-EQUITY
BEST EQUITY AGGRESSIVE GROWTH R. SRINIVASAN, SBI

TURNAROUND MAN

He believes in banking on a few quality stocks and staying invested for the medium to long term. By DIPAK MONDAL

RACHIT GOSWAMI

R Srinivasan, Head of Equity at SBI Mutual Fund, swears by Warren Buffett and his approach to portfolio management. "It's a good idea for a novice investor to read his 'Letters to Shareholders' chronologically from 1977 onwards," he says.

No wonder, then, he believes that "buying for trading and holding an investment because there's a loss" on the stock market, is akin to committing a sin. His investment philosophy is simple and succint – put your money in a few quality stocks and stay invested for the medium to long term.

It is a strategy that has paid rich dividends. Despite the endemic stock market volatility over the past couple of years, his funds have consistently given superior returns. Not surprisingly, Srinivasan has emerged the best equity fund manager in *Business Today*'s rankings for the second year in a row.

When asked which personality traits of his are reflected in his fund management style, he says, deadpan: "Volatility." On a more serious note, he maintains pronounced personality traits often distort decisions. "Personality traits create biases, which are not necessarily positive for the portfolio," he says.

Srinivasan manages five funds (four equity funds and one hybrid fund) one of which is SBI Emerging Businesses. This mutual fund has given the best annual return across equity fund categories for two years in a row. He also manages SBI Magnum Equity (a five-star fund) and SBI Magnum Global (a four-star fund). Five-star funds are among the top 10 per cent in terms of performance while four-star ones are the next 22 per cent in a category.

Indeed, SBI Emerging Business shows how Srinivasan has smartly rewarded investors. Despite being a mid- and small-cap fund, it has been less volatile than the broader market. This is largely a result of Srinivasan investing in a few high quality stocks – the fund only has 25 to 30 stocks in its portfolio, which is less than its peers. "At any point in time, there are typically just a handful of stocks you have a high degree of conviction

Best Equity Fund Managers

FUND MANAGER	R. Srinivasan	Atul Kumar	Gopal Agrawal	Neelesh Surana	Chetan Sehgal
FUND HOUSE	SBI Mutual Fund	Quantum Mutual Fund	Mirae Mutual Fund	Mirae Mutual Fund	Franklin Templeton
SCORE	52.24	51.35	47.22	44.74	40.91

Read 'How We Ranked The Funds', pg XX

Source: BT-Value Research Best Mutual Funds Study

Master of Returns Schemes R. Srinivasan manages have seen good returns over the years

FUNDS	MANAGING SINCE	1-YEAR RETURNS (%)	3-YEAR RETURNS (%)	5-YEAR RETURNS (%)
SBI Emerging Businesses	May 2009	20.69	15.51	10.32
SBI Magnum Equity	May 2009	8.66	5.29	7.03
SBI Magnum Global	May 2009	10.11	8.32	7.24
SBI Magnum Balanced	January 2011	15.68	4.01	6.04
SBI Contra	June 2011	9.64	0.52	4.39

Source: Value Research

about," he says.

The fund made handsome gains on some stocks in its portfolio in 2012 including SpiceJet, Muthoot Finance and United Spirits. "I guess we got lucky with United Spirits," says Srinivasan. But he also rues not having index stocks such as ICICI Bank and L&T in his portfolio, and holding on to Cox & Kings – the losses in this stock neutralised the fortuitous gains from United Spirits to an extent.

SBI Emerging Businesses gave a return of 21 per cent in 2012/13, during which the BSE Sensex returned 8.23 per cent and the Nifty 7.31 per cent. The BSE 500, the index to which its performance is benchmarked, gained 4.81 per cent during the fiscal year.

In the previous fiscal year, while the broader market eroded investors' portfolios – the Sensex declined 1.58 per cent and the Nifty 1.31 per cent – this fund gave 16.5 per cent returns. It has also beaten its peers comprehensively. The second best performing fund in the category, Reliance Equity Opportunities, returned 13 per cent and 7.39 per cent in the one-year and two-year periods ending March 2013, respectively. This fund has consistently managed to stay in the top quartile since 2010.

The stellar and consistent performance of SBI Emerging Businesses has not gone unnoticed – its asset under management (AUM) quadrupled from ₹300 crore in March 2011 to over ₹1,200 crore at the end of March 2013. In 2012/13 alone, the AUM doubled.

The funds Srinivasan manages are now over-weight on financials, health-care and consumer discretionary sectors, and under-weight on consumer staples and metals. He says he is betting on stocks that are comparatively less volatile, have earnings visibility and are likely to reward investors in the mid-to-long term. Srinivasan is seen as the man who turned around the fortunes of SBI Mutual Fund. His future strategies and moves are likely to be closely followed by the investor community. ◆

AHEAD OF THE CURVE

Discipline, method and market experience are the keys to his success. By DIPAK MONDAL

Amit Tripathi's hands are full. As Head of Fixed Income at Reliance Mutual Fund, he supervises the management of all its debt schemes, which together have assets under management (AUM) of ₹64,000 crore.

Handling such a diverse set of funds is a demanding task. One fund requires generating regular income over the long-term, another manages very short-term money mostly from banks and corporates, and yet another calls for a passive buy-and-hold approach.

But Tripathi pulls off his responsibilities with aplomb. "With adequate discipline and market experience, a fund manager will be able to operate across yield curves and credit curves," he says.

The soft-spoken and genial Tripathi is known for his aggressive investment style. "A fund manager handling a dynamic bond fund needs to aggressively move the scheme duration in line with his view on rates and the interest rate curve," he says. Fund managers alter the average duration of bonds, according to expectations of the future direction of interest rates. If the rate is expected to fall, the fund manager buys bonds of longer duration and sells those of shorter duration. Tripathi says positioning his funds early for a declining interest rate scenario through active duration management was the key to their outperformance.

Most of the actively managed debt funds (Reliance Liquidity, Reliance Money Manager and Reliance Floating Rate Short-term) by Tripathi have returned 9 per cent or more in fiscal 2013 compared with the category average of 8.7 per cent. This is impressive given that these funds offer an alternative to bank savings deposits, which offer between 4 and 7 per cent annual interest.

Tripathi, who became fund manager at the age of 28, says he has learnt all the tricks of the trade from his seniors and fellow fund managers. His mantra for success as a fund manager is "discipline and method". ◆

Best Debt Fund Managers

FUND MANAGER	Amit Tripathi	Maneesh Dangi	Rahul Pal	Anil Bamboli	Manish Banthia
FUND HOUSE	Reliance Mutual Fund	Birla Sun Life Mutual Fund	Taurus Mutual Fund	HDFC Mutual Fund	ICICI Prudential Mutual Fund
SCORE	41.94	37.78	31.82	31.52	30.19

Read 'How We Ranked The Funds', pg XX

Source: BT-Value Research Best Mutual Funds Study

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EQUITY: LONG TERM GROWTH
QUANTUM LONG TERM EQUITY FUND

ON THE HIGH ROAD

Investment in rate-sensitive and consumer goods stocks helps the Quantum fund top the charts. By TANVI VARMA

The Quantum Long Term Equity Fund has topped the equity long-term growth category of the *BT-Value Research Mutual Fund Rankings* with a five-star rating and the lowest expense ratio among its peers, 1.25 per cent.

Atul Kumar, the fund manager, says the fund benefited in the past year from a rally in rate-sensitive stocks such as autos, as interest rates fell. It also benefited from investing in consumer goods stocks such as Hindustan Unilever and Tata Global Beverages.

The fund has outperformed many larger peers such as ICICI Prudential Focused Bluechip Fund and UTI Equity Fund, which manage assets in excess of ₹2,000 crore.

The fund has returned 13.4 per cent compound annual growth since its launch in February 2006. In comparison, the Bombay Stock Exchange's Sensex posted returns of 9.7 per cent during the same period.

Kumar attributes the fund's superior performance to the strong processes it follows irrespective of market movements. "We are sector- and market cap-agnostic," he says.

The fund buys into companies that adhere to high corporate governance standards. It avoids companies that are highly leveraged or have aggressive business models. It holds 24 stocks in its portfolio and will limit the number to 40 stocks to avoid excessive diversification.

Kumar says banking stocks will benefit from a fall in interest rates as bad loans begin to moderate and banks start making some treasury gains. He likes software stocks as he expects offshoring volume to grow. In the auto sector, the fund is positive on Bajaj Auto because of its robust business and good cash flows. ◆

Fund Manager Atul Kumar

Top five sectoral holdings

INDUSTRY	HOLDING (%)*
IT - Software	10.69
Banks - Private	9.38
Finance - Housing	6.10
Logistics	5.55
Automobiles - Two & Three Wheelers	5.54

*As of March 2013 Source: Ace Equity

Performance

Value Research Rating	*****
AAUM (₹ crore)	161.40
1-yr Return (%)	8.97
3-yr Return (%)	8.53
5-yr Return (%)	12.13

AAUM: Average assets under management as of March 2013
Source: BT-Value Research Best Mutual Funds Study

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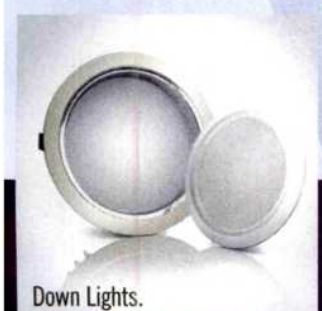
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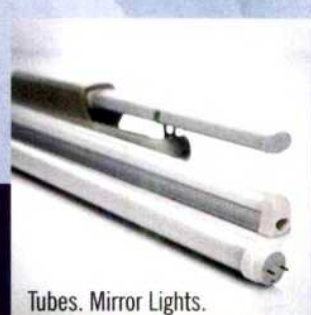
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SAFE AND STABLE

ICICI Prudential Balanced Fund emerges the winner by carefully picking stocks and avoiding sector skews. By TANVI VARMA

The ICICI Prudential Balanced Fund returned 11.6 per cent during 2012/13, surpassing the eight per cent returns delivered by its benchmark Crisil Balanced Fund Index. Despite being a balanced fund, which holds 70 per cent of assets in equities and the remaining in debt, the ICICI fund has also managed to match the returns posted by the National Stock Exchange's benchmark Nifty index in the past five years.

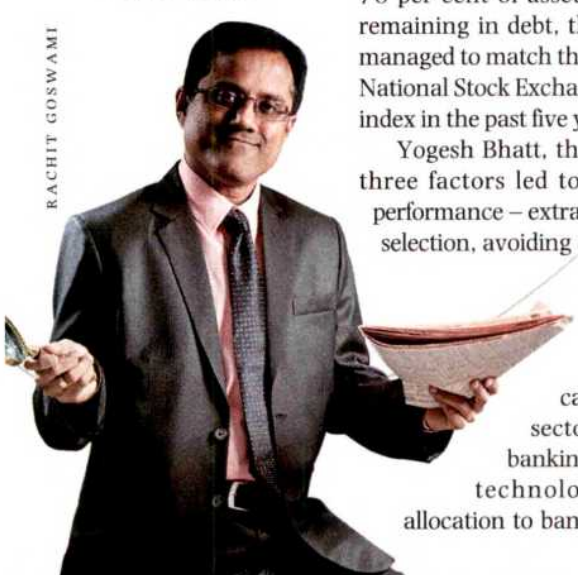
Yogesh Bhatt, the fund manager, says three factors led to the fund's superior performance – extra conservatism in stock selection, avoiding any sector skew, and a bottom-up stock selection strategy.

The fund is biased towards large-cap stocks. The top three sectors in its portfolio are banking, auto ancillaries and technology. "Although the allocation to banking is lower than the benchmark, the fund has invested in private lenders such as IndusInd Bank, Yes Bank, HDFC Bank and ICICI Bank that have outperformed the sector and offer a better credit and risk profile than state-run lenders," says Bhatt.

Among the auto ancillary stocks, Amara Raja Batteries (4.5 per cent of the fund's portfolio) and Motherson Sumi (2.9 per cent) have performed extremely well. Their value has tripled since the fund invested in them a year ago. Motherson Sumi's margin has recovered and its sales volume has grown in the overseas market, says Bhatt. "Amara Raja Batteries has gained share from Exide in the battery replacement market and has expanded capacity," he adds.

The fund has trimmed its holdings in auto ancillary shares to 7.37 per cent as of March 2013 from 11.2 per cent in December 2012, but Bhatt still expects a compound annual growth of 15 per cent from the stocks. ◆

Fund Manager Yogesh Bhatt



RACHIT GOSWAMI

Top five sectoral holdings

INDUSTRY	HOLDING (%)*
IT - Software	7.44
Auto Ancillaries	7.37
Pharmaceuticals & Drugs	6.46
Banks - Private	6.45
Oil Exploration	4.60

*As of March 2013

Source: Ace Equity

Performance

Value Research Rating	*****
AUM (₹ crore)	447.50
1-yr Return (%)	11.62
3-yr Return (%)	9.50
5-yr Return (%)	7.86

AAUM: Average assets under management as of March 2013
Source: BT-Value Research Best Mutual Funds Study

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BEST MUTUAL FUNDS
CATEGORY WINNERS

DEBT: BOND
BIRLA SUN LIFE MEDIUM TERM PLAN

SETTING THE RIGHT PRICE

Prudent investment in medium-term securities helps Birla Sun Life Medium Term Plan beat the competition. By TANVI VARMA

The Birla Sun Life Medium Term Plan has emerged as the winner in the debt (bond) category despite managing assets that are a tenth of that of its closest competitor, SBI Dynamic Bond Fund. The fund aims to maximise returns by identifying mispriced credit opportunities in medium-term securities and selectively investing in them. "This means the fund seeks opportunities that offer a higher yield where the investment is fairly priced for the amount of risk taken," says Maneesh Dangi, Co-Chief Investment Officer at Birla Sun Life Mutual Fund.

The fund follows a bottom-up investment strategy. This means it focuses on selecting fixed-income securities based on the individual attributes of a company instead of focusing on sectors or broad macro conditions.

The fund looks for securities that yield three to four per cent more than the AAA-rated paper and government bonds. It invests in non-AAA securities only after strict due diligence of every company and identifying the risk-reward for each investment.

One of the investments that has played out well is RHC Holding, which is secured by shares of Religare Enterprises and Fortis Healthcare offering a yield of about 14 per cent as collateral. Similarly, the fund invested in two-year non-convertible debentures of Prime Publishing, part of the Zee Group, with shares owned by promoters in various listed companies pledged as collateral.

The fund does not take positions on the maturity of the paper depending on interest rates. It invests in one- to three-year corporate bonds and recommends an investment horizon of two to three years while investing in this fund. ◆

Fund Manager
Maneesh Dangi

RACHIT GOSWAMI

Top assets

ASSET TYPE	% OF TOTAL HOLDING*
Corporate Debt	79.08
Certificate of Deposit	1.69
Commercial Paper	15.12
Cash & Cash Equivalents	4.11

*As of March 2013 Source: Ace Equity

Performance

Value Research Rating	*****
AUM (₹ crore)	534.08
3-month Return (%)	2.57
1-yr Return (%)	11.22
3-yr Return (%)	9.22

AAUM: Average assets under management as of March 2013
Source: BT-Value Research Best Mutual Funds Study

NIFTEM
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Admission Notice for B. Tech., M. Tech. & Ph.D. Programmes

ABOUT NIFTEM

National Institute of Food Technology Entrepreneurship and Management (NIFTEM) was conceptualized by Government of India on persistent demand of the food industry to have an Apex Organization as a One Stop Solution Provider for the various problems of the sector. Ministry of Food Processing Industries (MoFPI), Government of India, has set up this institute with an initial investment of about ₹ 500 crore (US $100 million). NIFTEM has been recognized as a Deemed to be University under De-novo Category by Ministry of Human Resource Development under University Grants Commission Act, 1956.

MANDATE OF NIFTEM: NIFTEM has mandate to work as Sector Promotion Organization/Business Promotion Organization of the food processing sector. The major objectives of NIFTEM are:

• To work as One Stop Solution Provider • To work for Skill Development and Entrepreneurship • To facilitate Business Incubation Services Frontier Area Research and Fostering Innovation. • To develop World Class Talent • To function as a Knowledge Repository and for SME up-gradation.

ACTIVITY FOCUS OF NIFTEM: • Education and Research • Skill Development • SME Upgradation • Consultancy • Extension and Outreach • Technology Enterprise Incubation

WORLD CLASS EDUCATION

• Teaching labs of international standards encompassing 7223 m^2 area. • Modern classrooms with interactive board, projection system and lecture recording facility. • Video conferencing facility for interaction with foreign teachers. • State-of-the-Art Library, NIFTEM Knowledge Centre (NKC) with a carpet area of 5474 m^2.

INNOVATIVE CONCEPTS IN EDUCATION

• Each programme is a unique blend of technology and management. • Innovative globally benchmarked curriculum. • Innovative approach for teaching through e-contents. • Regular Interactive sessions with top professionals and managers of food industry.

LIFE AT NIFTEM CAMPUS

• Fully residential campus with separate hostel facilities for girls and boys. • Entire campus is planned to be a High-Tech Wi-Fi campus. • Green campus with duly planned walking/jogging/cycling tracks. • Self contained campus with facilities like post office, bank, and an upcoming utility complex.

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VILLAGE ADOPTION PROGRAMME (VAP):

• A unique approach to pervade Food Processing Technologies and NIFTEM's message to the least developed villages of India. • Students are divided into groups of 5 to 7 immediately after joining B. Tech/ M. Tech. programmes at NIFTEM. Each group adopts a village anywhere in India and nurses it during their entire programme.

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• International Grain Processing Research Centre
• International Bakery Research and Training Centre
• International Centre of Excellence on Food Safety and Quality

INTERNATIONAL COLLABORATIONS AND STUDENT'S FOREIGN EXCHANGE PROGRAMME

• NIFTEM has entered into Memorandum of Understanding with 3 foreign universities and likely to sign similar MoUs with about ten more eminent foreign Universities/ Institutions. • Right from their first year itself, every year ten meritorious students of B. Tech and five of M. Tech programmes of NIFTEM are sent to foreign universities on student exchange programme.

INNOVATION FUND FOR STUDENTS

• NIFTEM has conceptualized creation of an Innovation Fund for the students. • Innovative projects submitted by the students costing upto ₹ 15.00 lakh are normally funded, limit can be exceeded in case of highly deserving projects.

ADMISSION NOTICE 2013-14

NIFTEM invites applications from eligible candidates for admission to the following academic programmes at its Kundli campus:

A. UNDER GRADUATE PROGRAMME: Four years regular B. Tech. degree in Food Technology and Management.

Number of Seats: For Indian nationals: 180 , For Foreign Nationals: 27

Scholarships and Financial Support: • Merit scholarship and fellowships for up to 10% students in a programme. • Earn while you learn programme.

B. POST GRADUATE PROGRAMMES: Two years regular M. Tech. degree in a. Food Technology and Management b. Food Process Engineering and Management c. Food Plant Operations and Management d. Food Safety and Quality Management e. Food Supply Chain Management

Number of Seats: For Indian nationals: 18 in each M. Tech. programme, For Foreign Nationals: 03 in each M. Tech. programme.

Fellowship: ₹ 8000/- per month (to GATE qualified Indian Nationals Only)

C. Ph. D. PROGRAMME: NIFTEM offers Ph.D. programmes in following areas: a. Food Science and Technology b. Engineering c. Food Business Management and Entrepreneurship d. Basic and Applied Sciences e. Agriculture and Environmental Science

Number of Seats: For Indian nationals: 02 in each of the five programmes, For Foreign Nationals: 03 in total.

Fellowship: Available, as indicated in brochure.

NOTE: For Eligibility, Selection Process, Reservation details and other relevant information, refer Brochure 2013 on the website. As per latest decision Ph. D. Entrance Test would be held at NIFTEM Campus, Kundli, Sonepat, Haryana, only, however Journey fare will be reimbursed as detailed in the brochure.

HOW TO APPLY: Interested applicants may apply online at www.niftem.ac.in. It is advised to go through the admission brochure before filling up the form, which is available online and also be obtained in print form on payment of ₹ 350 in cash or through DD. Applicants are required to take printout of application after completing on line application form filling process. Printed application must be sent by registered/speed post/ in person to Head, Admission Cell, NIFTEM, Plot No. 97, Sector 56, HSIIDC Industrial Estate, Kundli – 131 028, District: Sonepat, Haryana, so as to reach at the destination on or before the due date of respective programme. Print copy must carry a duly pasted passport photo along with signature of the candidate and parents/guardian at appropriate place. The application must also carry a non-refundable application fee, if not paid online, in form of DD only of ₹ 1000 (General/OBC) and ₹ 500 (SC/ST). The DD should be in favour of 'NIFTEM' payable at SBI, Branch - NIFTEM Campus Kundli (Branch Code 15479).

LAST DATE OF RECEIPT OF ONLINE AND PRINTED APPLICATIONS

B.Tech. (online & print copy respectively)	19.06.2013 and 26.06.2013	Ph.D. (online & print copy respectively)	15.06.2013 and 26.06.2013
M.Tech.(online & print copy respectively)	12.06.2013 and 19.06.2013	Ph.D Entrance Examination (Kundli Campus)	04.07.2013

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HOW WE RANKED THE FUNDS

There are essentially two ways of classifying mutual funds. One is based on the amount of money invested by the funds, and the other on what need they fulfill for the investor. An example of the former is 'Equity: Large & Mid-cap', while one from latter is 'Growth'. The *BT-Value Research* approach is the latter. To make things simpler, niche fund categories such as sector and thematic funds have been kept out.

The categories

Equity: Aggressive Growth includes multi-cap, mid- and small-cap funds. Diversified equity funds with an average allocation of 40-60 per cent of their assets to large cap stocks have been classified as multi cap funds. Those with an average allocation of less than 40 per cent to large-cap stocks were classified as mid- and small-cap funds.

Equity: Long Term Growth includes all large-cap and large- and mid-cap funds. Diversified equity funds with an average allocation of 60 to 80 per cent of their assets to large-cap stocks have been classified as large and mid-cap funds. And those with an average allocation of more than 80 per cent to large-cap stocks were classified as large-cap funds.

Equity: Conservative Growth includes all balanced funds, that is, funds with an average equity exposure of more than 60 per cent.

Debt: Bond includes medium and long-term bond funds. All the income and gilt funds as per their stated objectives were considered in this category.

Debt: Liquid includes liquid and ultra short-term funds.

The *Value Research* rating summarises how a fund has performed over the three years to March 2013, relative to the other funds in its category, for the risks it has taken. Funds that are less than three years old have been dropped. As have funds with less than ₹100 crore of average assets under management, or AAUM, in the past six months.

The rating is determined by subtracting the fund's risk score from its return score. To calculate risk, monthly/weekly fund returns are compared against the monthly risk-free return for equity and hybrid funds, and weekly risk-free return for debt funds. Risk-free return is defined as State Bank of India's 45-180 days term deposit rate. For all months/weeks the fund has underperformed the risk-free return, the magnitude of underperformance is added. This helps arrive at the average underperformance and how the fund has performed vis-a-vis its category average. The relative performance of the fund is expressed as a risk score.

For returns scores, funds' monthly/weekly returns – adjusted for dividend, bonus or rights – are compared with the monthly/weekly risk-free return to arrive at the fund's total return in excess of the risk-free return. The monthly average risk-adjusted return is compared with the average category return to arrive at the returns score.

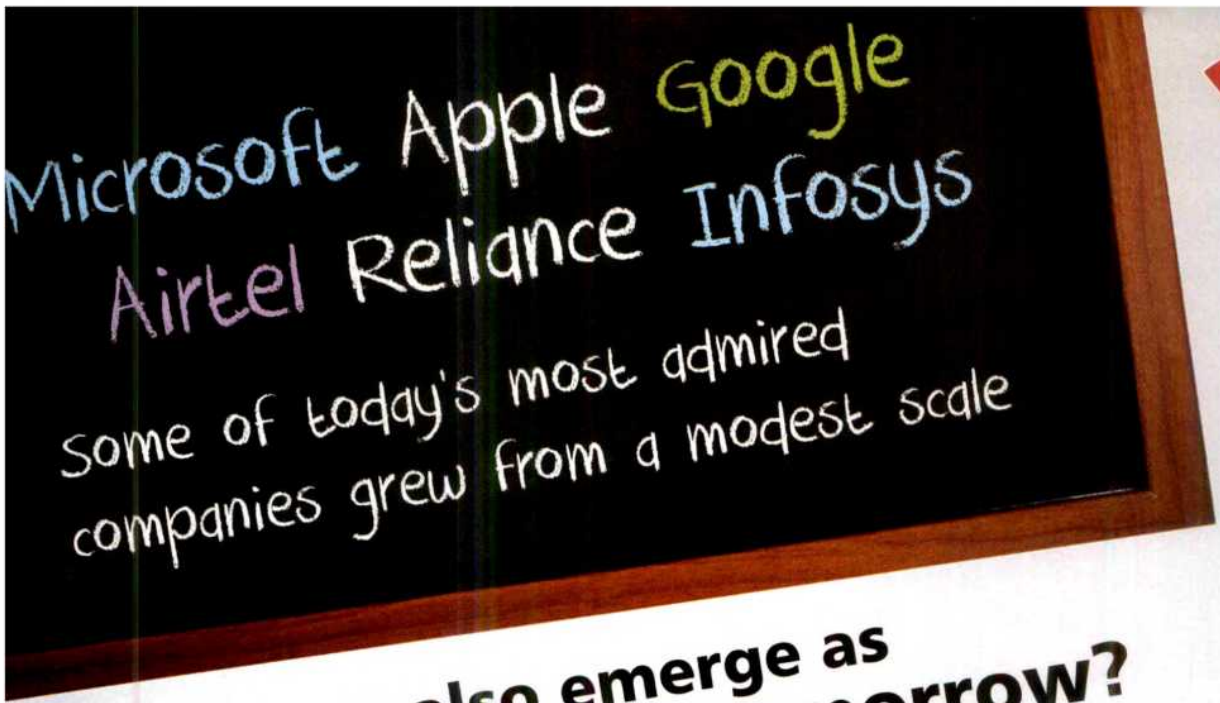
The overall scores – arrived at after deducting the risk score from the returns score – have been multiplied by 100 to make them more readable.

Other categories

For Best Fund House, Best Equity Fund Manager, and Best Debt Fund Manager, only mainstream funds were considered. The exercise was based on the quarterly performance over the past five years (20 quarters). Each quarterly performance of a fund was assigned a quartile rank. So, funds and fund managers who have been around less than five years were eliminated.

The fund house with maximum top quartile performances was adjudged the best. Fund companies with less than ₹5,000 crore AAUM were not considered. For best fund manager – equity and debt – the manager with relatively highest top quartile performances were adjudged the best. This was irrespective of job change – if a fund manager moved from one fund to another, he was attributed the fund performance for his term across fund houses. Managers with less than ₹100 crore under management were excluded. ◆

Read the full methodology at, www.businesstoday.in/bestmfs-2012



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BEST MUTUAL FUNDS
RANKING TABLE

Equity: Aggressive Growth

RANK	SCHEME	OVERALL SCORE	VALUE RESEARCH RATING	RETURN SCORE	RETURN RATING	RISK SCORE	RISK RATING	RETURNS % 1-YEAR	RETURNS % 2-YEAR	RETURNS % 3-YEAR	AAUM(₹ CR)
1	SBI Emerging Businesses	**93.79**	★★★★★	182.06	High	88.87	Below Average	20.69	16.44	15.51	**1,231.10**
2	Reliance Equity Opportunities	**5.48**	★★★★★	91.12	High	85.64	Below Average	13.07	7.39	9.84	**4,995.32**
3	IDFC Premier Equity Regular	**5.01**	★★★★★	89.02	High	84.01	Below Average	10.84	8.02	9.92	**3,462.80**
4	HDFC Mid-Cap Opportunities	**3.20**	★★★★★	85.01	High	81.81	Low	5.23	6.87	9.62	**2,734.14**
5	SBI Magnum Global	**-20.17**	★★★★★	59.22	High	79.39	Low	10.11	9.63	8.32	**919.17**
6	ICICI Prudential Discovery Reg	**-31.91**	★★★★	50.42	Above Average	82.33	Low	11.29	5.58	7.53	**2,597.17**
7	Tata Dividend Yield Plan A	**-47.22**	★★★★	37.59	Above Average	84.81	Below Average	1.38	3.11	6.91	**342.05**
8	L&T India Special Situations	**-48.83**	★★★★	31.79	Above Average	80.62	Low	10.90	3.69	6.47	**626.89**
9	JP Morgan India Smaller Companies	**-50.95**	★★★★	38.22	Above Average	89.17	Below Average	9.77	4.48	6.70	**133.56**
10	IDFC Sterling Equity Regular	**-52.56**	★★★★	35.81	Above Average	88.36	Below Average	8.78	5.27	6.65	**1,387.38**

Equity: Long Term Growth

RANK	SCHEME	OVERALL SCORE	VALUE RESEARCH RATING	RETURN SCORE	RETURN RATING	RISK SCORE	RISK RATING	RETURNS % 1-YEAR	RETURNS % 2-YEAR	RETURNS % 3-YEAR	AAUM(₹ CR)
1	Quantum Long Term Equity	**-21.89**	★★★★★	63.36	High	85.25	Below Average	8.97	3.61	8.53	**161.40**
2	UTI Opportunities	**-29.06**	★★★★★	49.58	High	78.64	Low	4.81	4.84	7.88	**3,511.05**
3	ICICI Prud. Focused Bluechip Equity Reg	**-41.94**	★★★★★	49.27	High	91.20	Below Average	8.28	2.14	7.53	**4,330.73**
4	UTI Equity	**-47.65**	★★★★★	37.26	High	84.91	Low	8.07	3.08	6.88	**2,313.23**
5	BNP Paribas Equity	**-47.82**	★★★★★	37.69	High	85.51	Below Average	9.75	4.41	6.91	**121.55**
6	ICICI Prudential Indo Asia Equity Reg	**-53.27**	★★★★★	23.83	Above Average	77.11	Low	9.12	3.80	6.41	**153.54**
7	L&T Indo Asia	**-54.37**	★★★★★	20.72	Above Average	75.09	Low	10.61	2.11	6.29	**283.67**
8	Mirae Asset India Opportunities Regular	**-55.37**	★★★★	36.02	High	91.39	Below Average	8.32	2.62	6.72	**290.65**
9	Canara Robeco Equity Diversified Regular	**-62.32**	★★★★	20.70	Above Average	83.02	Low	7.10	3.88	6.09	**665.12**
10	Franklin India Prima Plus	**-70.59**	★★★★	17.40	Above Average	87.99	Below Average	7.84	3.00	5.72	**1,952.66**

Hybrid: Conservative Growth

RANK	SCHEME	OVERALL SCORE	VALUE RESEARCH RATING	RETURN SCORE	RETURN RATING	RISK SCORE	RISK RATING	RETURNS % 1-YEAR	RETURNS % 2-YEAR	RETURNS % 3-YEAR	AAUM(₹ CR)
1	ICICI Prudential Balanced Reg	**260.97**	★★★★★	344.39	High	83.42	Below Average	11.62	8.19	9.50	**447.50**
2	HDFC Balanced	**203.86**	★★★★	292.16	Above Average	88.31	Average	3.76	5.18	8.73	**1,136.29**
3	Tata Balanced Plan A	**83.88**	★★★★	171.56	Above Average	87.68	Below Average	10.50	6.72	7.31	**508.47**
4	Canara Robeco Balance Regular	**65.29**	★★★★	150.32	Average	85.03	Below Average	7.52	5.80	7.18	**204.41**
5	HDFC Prudence	**58.85**	★★★	167.20	Average	108.34	Above Average	3.29	1.99	6.92	**6,162.21**
6	Birla Sun Life 95	**-15.49**	★★★	81.37	Average	96.86	Average	8.56	2.87	6.21	**575.99**
7	FT India Balanced	**-90.71**	★★★	1.12	Average	91.84	Average	7.21	3.38	5.27	**212.45**
8	Reliance Regular Savings Balanced	**-112.34**	★★★	4.67	Average	117.00	High	8.67	4.21	4.95	**547.51**
9	UTI Balanced	**-159.85**	★★	-52.32	Below Average	107.52	Average	8.65	2.23	4.39	**943.25**
10	SBI Magnum Balanced	**-192.25**	★★	-83.16	Below Average	109.09	Above Average	15.68	3.90	4.01	**374.07**

Debt: Bond

RANK	SCHEME	OVERALL SCORE	VALUE RESEARCH RATING	RETURN SCORE	RETURN RATING	RISK SCORE	RISK RATING	RETURNS % 1-MONTH	RETURNS % 3-MONTH	RETURNS % 1-YEAR	RETURNS % 3-YEAR	AAUM (₹ CR)
1	Birla Sun Life Medium Term	**124.17**	★★★★★	141.01	Above Average	16.85	Low	1.21	2.57	11.22	9.22	**534.08**
2	SBI Dynamic Bond	**121.12**	★★★★★	183.55	High	62.43	Average	0.80	3.19	11.74	10.22	**5,332.48**
3	Religare Active Income	**96.84**	★★★★★	122.78	Above Average	25.94	Low	0.37	1.90	10.20	8.79	**1,534.83**
4	IDFC Dynamic Bond Regular	**94.06**	★★★★★	176.80	High	82.74	Average	0.78	3.67	13.07	10.06	**3,993.68**
5	Templeton India Income Opportunities	**90.55**	★★★★★	118.26	Average	27.71	Below Average	1.01	2.23	10.53	8.68	**2,822.55**
6	UTI Bond	**86.55**	★★★★	160.15	High	73.60	Average	0.69	3.18	11.79	9.66	**1,776.96**
7	Birla Sun Life Short Term	**85.83**	★★★★	111.88	Average	26.05	Below Average	0.98	2.20	10.54	8.53	**4,487.08**
8	Birla Sun Life Dynamic Bond Ret	**82.62**	★★★★	113.69	Average	31.06	Below Average	0.91	2.28	10.45	8.58	**14,660.83**
9	DSPBR Strategic Bond Inst	**81.92**	★★★★	104.56	Average	22.64	Low	0.53	2.32	10.21	8.36	**2,947.01**
10	ICICI Prudential Dynamic Bond Reg	**81.30**	★★★★	104.58	Average	23.27	Low	0.51	2.61	10.18	8.36	**428.03**

Debt: Liquid

RANK	SCHEME	OVERALL SCORE	VALUE RESEARCH RATING	RETURN SCORE	RETURN RATING	RISK SCORE	RISK RATING	RETURNS % 1-MONTH	RETURNS % 3-MONTH	RETURNS % 1-YEAR	RETURNS % 3-YEAR	AAUM (₹ CR)
1	JM Money Manager Reg	**125.54**	★★★★★	125.54	High	0.00	Low	0.70	2.15	9.80	9.02	**207.59**
2	JM Money Manager Super	**124.61**	★★★★★	124.61	High	0.00	Low	0.66	2.03	9.71	9.00	**184.57**
3	Taurus Ultra Short Term Bond Super Inst	**123.05**	★★★★★	123.05	High	0.00	Low	0.80	2.24	9.90	8.96	**825.53**
4	Templeton India Ultra Short Bond Super Inst	**118.88**	★★★★★	111.88	High	0.00	Average	0.78	2.17	9.92	8.86	**4,576.62**
5	Sundaram Ultra ST Reg	**115.78**	★★★★★	115.78	Above Average	0.00	Low	0.80	2.19	9.80	8.78	**1,512.87**
6	Baroda Pioneer Treasury Advantage	**111.66**	★★★★★	112.57	Above Average	0.90	Below Average	0.88	2.19	9.74	8.70	**1,148.30**
7	Canara Robeco Treasury Adv Regular	**110.20**	★★★★★	110.20	Above Average	0.00	Low	0.72	2.06	9.51	8.65	**752.53**
8	BNP Paribas Overnight	**109.55**	★★★★★	109.55	Above Average	0.00	Low	0.66	2.04	9.31	8.64	**912.97**
9	UTI Treasury Advantage Inst	**108.52**	★★★★★	108.52	Above Average	0.00	Low	0.79	2.14	9.51	8.60	**9,852.59**
10	JM Money Manager Super Plus	**107.86**	★★★★	107.86	Above Average	0.00	Average	0.68	2.07	9.61	8.58	**1,059.28**

AAUM: Average assets under management; AAUM and returns as of March 31, 2013
See the full list in each category at: www.businesstoday.in/bestmfs-2012 Source: BT-Value Research Best Mutual Funds Study 2012

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HOW TO PROSPER WHEN ALL ADVANTAGE IS FLEETING

Strategy For Turbulent Times

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BEST MUTUAL FUNDS COLUMN

DHIRENDRA KUMAR

CHOOSE WISELY

For at least four years now, mutual funds – especially equity mutual funds – have not received much enthusiasm from investors. Like any other equity-related asset, high returns have been hard to come by and there has been little reason for new investors to get attracted to mutual funds in large numbers.

However, it looks likely that we are on the cusp of a change in this situation. Despite all the gloom and doom, there are many underlying positives in the Indian economy and businesses. There are no guarantees of course, but it is important that investors re-orient themselves to steady and regular mutual fund investing. In this context, mechanisms for the evaluation, grading and ranking of mutual funds become very important.

During the heady days of 2004/2008, many mutual fund investors did their finances great damage by investing blindly in the flavour-of-the-day funds, generally driven by the sales hype of the fund companies and the commission-driven entreaties of fund salesmen. That was the worst possible way of choosing funds. The choice of which fund to invest in has to be driven instead by data, analysis and a process that incorporates all this.

This annual exercise that *Value Research* conducts jointly with *Business Today* is designed to do just that. However, the most important part of this exercise is not the end result – the actual identity of the funds that turn out be at the top of the heap (or the ones that don't) but the division of the funds in different buckets – the very concept that different types of mutual funds serve different needs. For many investors, the process of choosing the right mutual fund to invest in begins (and often ends) with the question: "Which is the best fund to invest in?"

This question cannot but yield the wrong answer, except by chance. The right question is: "Which fund should I invest in?", and the most important word in that question is not 'fund' but 'I'. Any hunt for the most suitable investment must begin not with an analysis of the options available but one's own needs. To twist the saying, 'Investor, Know Thyself.'

There are not just a huge number of mutual funds available, but a large number of types of funds available. Are you someone who has just started working and doesn't have any specific responsibilities? Are you a corporate CFO who needs to park extra cash for a few days? Are you an imminent retiree who will need a regular income combined with reasonable stability? Or are you a high-income executive who doesn't mind a bit of risk? First, you must identify what type of fund is suitable for you.

Therefore, the right way to approach *Business Today's* annual *Best Mutual Funds* study is to remember that the individual funds must be seen only in the context of the different categories under which they have been evaluated. It will make little sense to zero in on the best liquid fund when you actually need a hybrid fund.

The second important thing about actually utilising this feature is to focus less on the minutiae of the ranking but more on the process we have followed. Generally speaking, rankings, awards and grading are an important part of any process that selects investments. However, small differences in rank or grading are more reflective of chance, than a reliable guide to the future. In any well-designed process, the inherent difference of quality between a number one and a number two has little meaning especially for how they will do going ahead. For the serious investor, this study on funds will hold more utility as a learning experience, rather than a precise recipe to follow. ◆

The author is CEO, Value Research

APPEAL

HELP FOR FIVE-YEAR-OLD VICTIM OF RAPE

CARE TODAY AN INDIA TODAY GROUP INITIATIVE

CARE TODAY appeals to citizens for contributions

There is a five-year-old girl in Delhi who, like all children her age, loves to cuddle up to her mother, play and talk about everything under the sun. Meet Gudiya, who is in recovery, after being brutally attacked and raped by her neighbour on April 15. This brutal rape has ripped her and her family's life apart.

In what can only be described as one of the worst horror stories to have played out in the National Capital, Gudiya was raped by two men, one her neighbour who she had trusted enough to go to when he called out to her. The rapists attacked her in a brutal manner, inserting candles and a hair oil bottle inside her, and then locking her up at the scene of the crime, hoping she was dead.

Miraculously, and under expert medical care, the five-year-old fought for her life at the All India Institute of Medical Sciences (AIIMS) in Delhi. Though grievously injured, she lived to see another day.

Recently the Parliament passed the Criminal Law (Amendment) Bill, 2013, laying down stringent punishment for crimes against women, even death. But the threat of death penalty has not deterred criminals. One in three rape victims in India is a child. According to a recent report published by the Delhi-based NGO Asian Centre for Human Rights, there has been a 336 per cent jump in child rape cases between 2001 and 2011 in India, totalling 48,338 in a decade.

Before we give into our numbness resulting from the frequency of such cases, we must take action and help Gudiya. Still vulnerable, she needs to rediscover her childhood, and learn to live life one step at a time.

She cannot go back to her east Delhi tenement where she was raped, it is no longer the 'safe home' she once knew. She needs to be nurtured through her recovery process by all of us. She needs to heal, physically through expert medical care involving surgery, medication and nutrition support. Most importantly, she needs help to heal psychologically through sustained and long-term counselling. She needs to go to school, to learn and grow like other children her age.

To ensure that we do not forget Gudiya as just another statistic on the rape chart, Care Today, part of the India Today Group, is launching an appeal to support her through this crucial healing process. We request donors to contribute to this cause and enable us to respond to the child's needs.

To tell others about the Care Today initiative on Twitter, use **#hamarigudiya**

For more details about Care Today, log on to **www.caretoday.co.in**

Every contribution will make a difference and will go a long way towards giving Gudiya a chance at a happy and normal future. Fifty per cent of the donated amount is eligible for income deduction under Section 80G of the Income Tax Act. Contributions more than Rs 5,000 and above will be listed in INDIA TODAY.

MAKE A DIFFERENCE

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NOT SO

Japanese car maker Nissan Motor Co's grand India plans are out of tune with ground realities.

By N. MADHAVAN

PHOTOGRAPHS BY H.K. RAJASHEKAR

Two years ago, Carlos Ghosn, President and CEO of Nissan Motor Co, announced a six-year plan called Nissan Power 88 to accelerate the company's growth worldwide. He called it "the roadmap for our profitable growth" that would "deliver the full potential of the company". Nissan, Japan's second largest car maker, was emerging strong from the 2008/09 financial crisis, and the aim of Nissan Power 88 was to raise the global market share to eight per cent (it is 6.2 per cent at present) and operating profit margin to eight per cent as well by 2016/17 (six per cent at present).

To achieve these goals, the Yokohama-based company is banking on strong performance in emerging markets such as India. "India has a strategic role in the success of Nissan Power 88, as it is a key growth market for us," says Toshiyuki Shiga, Chief Operating Officer, Nissan Motor.

But many in the industry say the company's India target is audacious. Nissan wants to raise its market share from 1.5 per cent in 2012/13 to 10 per cent by 2016/17. In other words, it must double its market share every year for the next four years in a market that is crowded with entrenched and aggressive rivals such as Maruti Suzuki and Hyundai. And Nissan's performance since it launched the Micra, a

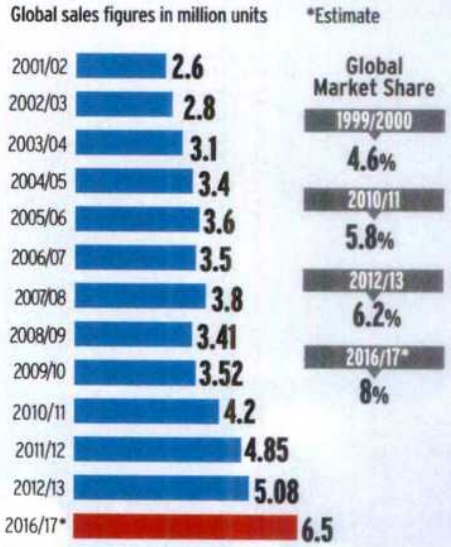
compact car, in mid-2010 inspires little confidence that it can pull it off. All that Takayuki Ishida, Managing Director and CEO of Nissan Motor India until recently (he was replaced in April 2013 by Kenichiro Yomura, the fourth CEO in five years), says when asked about the target is that "we must achieve it". But the company failed to achieve its 2012/13 domestic sales target of 50,000 units.

Besides the Micra, the company makes the Sunny, a sedan, and Evalia, a multi-purpose vehicle, at its plant in Oragadam near Chennai. The plant is a joint venture with Renault. In 2012/13 Nissan produced 138,549 cars here, but sold 36,955 units in the domestic market. Exports far exceeded domestic sales at 98,971 units. At 23,998 units, Sunnys outsold Micras (11,449 units). The remainder is accounted for by sales of cars such as the Evalia and the Teana. Micra sales fell 38 per cent in 2012/13 compared to the previous year, although the compact car segment declined by only seven per cent.

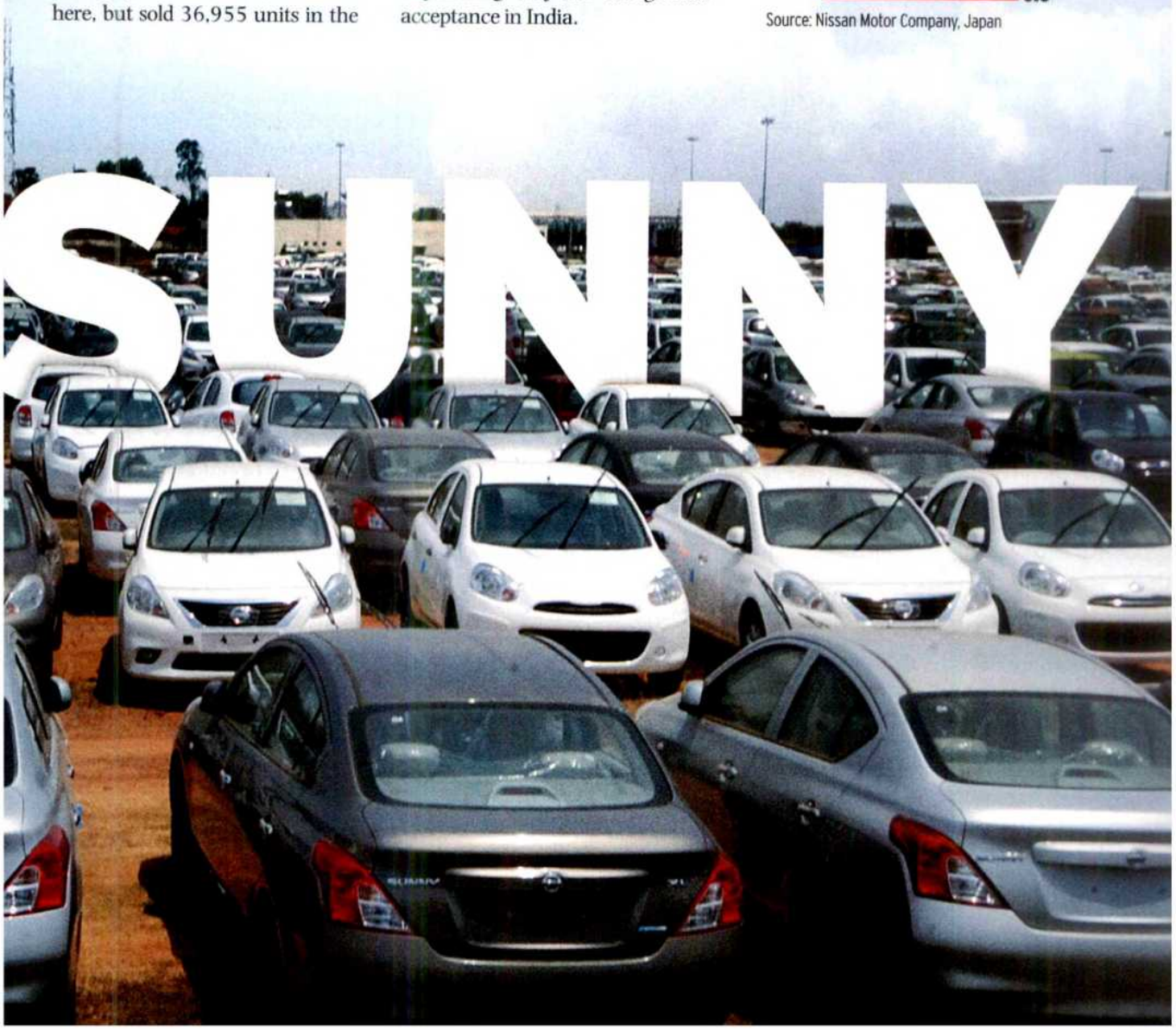
"Sunny is a car which is as luxurious as a car in its next class, and that value proposition was clearly established," says Nitish Tipnis, Director - Marketing and Sales at Hover Automotive, Nissan's master franchisee in India, explaining why the car gained acceptance in India.

Seeking Faster Growth

Sales have been rising slowly, and Nissan's Power 88 programme aims to change that

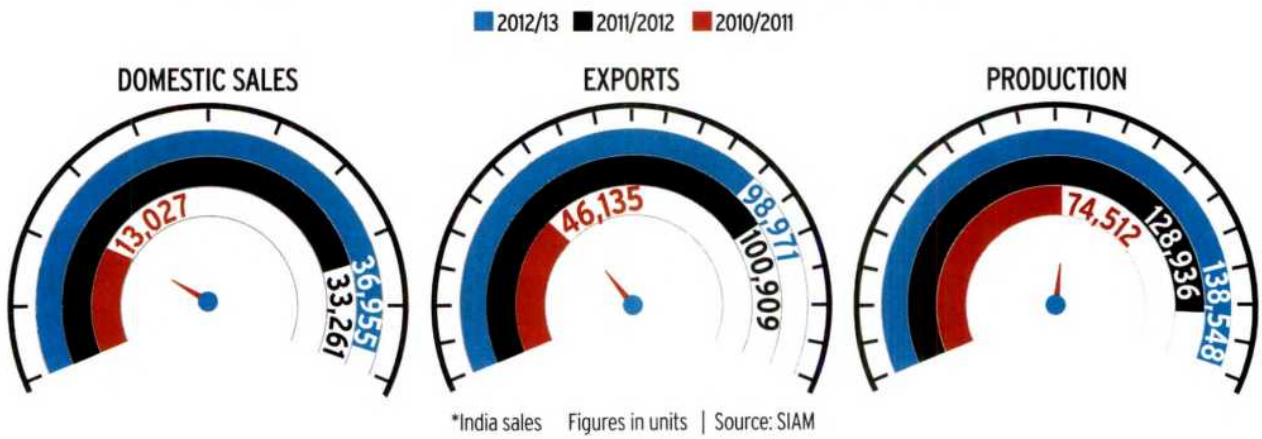


Source: Nissan Motor Company, Japan



Export Dependant

In the absence of domestic demand, it is exports which are sustaining Nissan's operations in India



*India sales Figures in units | Source: SIAM

SRISTI

But the Micra, he says, is different. "Apart from various other features, it has the lowest cost of ownership. But this attribute was not communicated properly to the consumers," he says. The company is planning a new variant of the compact car soon.

"India is a highly competitive market with demanding customers, so any player entering the market late must offer a value proposition which is different from cars that are already there," Abdul Majeed, Partner and Leader – Automotive Practice, PwC. "A clear distribution strategy is absolutely necessary," Micra failed on all counts, he adds.

Nissan's challenges in India are not confined to products. Some of its innovations did not work. While all other car makers in the country set up their own dealer network, Nissan chose to appoint Hover Automotive as its master franchisee. Hover takes care of dealer development, dealer support and operations, car distribution, and marketing. Basically, it handles Nissan's entire front-end operation.

"As we were a late starter, we appointed a master franchisee," says Ishida. "The assumption here is that they have the local knowledge to roll out dealerships faster than us. This strategy was in line with our core growth philosophy of partnership."

In three years Nissan set up 95 dealers in 14 states, covering 68 per cent of the Indian market. "Car makers who came in earlier took 10 years to reach this coverage," says Hover's Tipnis. But the move created unexpected problems. In December last year, dealers formed the Nissan Dealers Forum, and refused to take delivery of the newly launched Evalia. "When organisations are trying to cut middlemen, Nissan added a layer called master franchisee," says a dealer who recently gave up the Nissan dealership. "This ate into the already wafer-thin dealer margins. Also, poor domestic sales meant that dealers who had invested a lot of money could not see revenues from service and spare parts business. Many were staring at big losses." Several dealers felt that the master franchisee did not give them due respect, and that this was reflected in communication.

"We have understood the issues raised by the dealers," says Tipnis, who maintains that dealers' margins are not reduced because of a master franchisee. Nissan now holds dealer meetings every two months, but the fact is that dealer unrest has affected its sales and customer service.

The company's other experiment was cross-badging – selling the same car under different brand names – as

Nissan Power 88

The company seeks 8% global market share and 8% operating profit margin come 2016/17 by...

- ...drastically raising sales volume and market share
- ...expanding sales outlets globally from the current 6,000 to 7,500
- ...delivering one new vehicle every six weeks
- ...achieving global quality and cost leadership
- ...leveraging the strength of partners like Ashok Leyland
- ...developing more than 90 advanced technologies

Global standards: The ₹4,500 crore Nissan-Renault joint venture plant at Oragadam near Chennai, which makes all the Nissan and Renault cars sold in India

part of the Renault-Nissan alliance strategy (see case study titled "Why Cross-badging Does Not Work in India" at *www.businesstoday.in/case study-crossbadging*). The Micra is cross-badged and sold as the Renault Pulse, and the Sunny is also sold as the Scala. This confused consumers, and sales of both brands fell.

One innovation worked, however – the decision to set up the joint venture plant. Together, Renault and Nissan have invested ₹4,500 crore in the Oragadam plant, and share the facility in a 30:70 ratio. All Renault and Nissan cars sold in India are made here. "The joint venture plant ensured that the investment, productivity and best practices are shared," says Toshihiko Sano, CEO and Managing Director of Renault Nissan Automotive India Pvt Ltd. "There are economies of scale, and market conditions are better managed."

The plant has a strong local supplier base and has attained global quality levels, he adds, pointing to strong exports as proof. Exports in the last two years exceeded 200,000 cars, making Nissan the third largest exporter from India after Hyundai and Maruti Suzuki. Over 200 variants of Nissan cars go to more than 90 countries. The India plant has replaced Japan as the hub to export the Micra to Europe, which helps the parent company leverage India's low manufacturing cost and save on adverse yen fluctuations against the US dollar.

Nissan Motor India has drawn up a strategy to meet the Nissan Power 88 targets. It plans to triple its dealerships to 300 by 2016/17, launch 10 new models in that period including the all-new Datsun, an entry-level compact car priced below ₹4 lakh. A team of 2,000 engineers is working on the car at the company's research and development centre near Chennai. Nissan will soon cross-badge the highly successful Renault Duster as its own product. There are plans to expand capacity as well.

But no one is willing to bet that Nissan will have a 10 per cent market share in four years because of these efforts. Nissan Power 88, it appears, has to succeed without India's contribution. However, the strong manufacturing footprint that the company has set up will lay the foundation for Nissan's future in India. Toru Hasegawa, Nissan Motor's Corporate Vice President for Africa, the Middle East and India, says: "We are in India for the long run, and getting the production right is the key." ◆

Critical Market

The car maker needs to succeed in India to meet Nissan Power 88 targets. It hopes to do this by...

...grabbing **10%** market share in India from current 1.5%

...launching **10 new models** including the Datsun, an entry-level compact car to be priced below ₹4 lakh

...cross-badging the **Renault Duster**

...tripling dealerships from the present 95 to **300**

For earlier stories on Nissan, go to www.businesstoday.in/archives-jun0913

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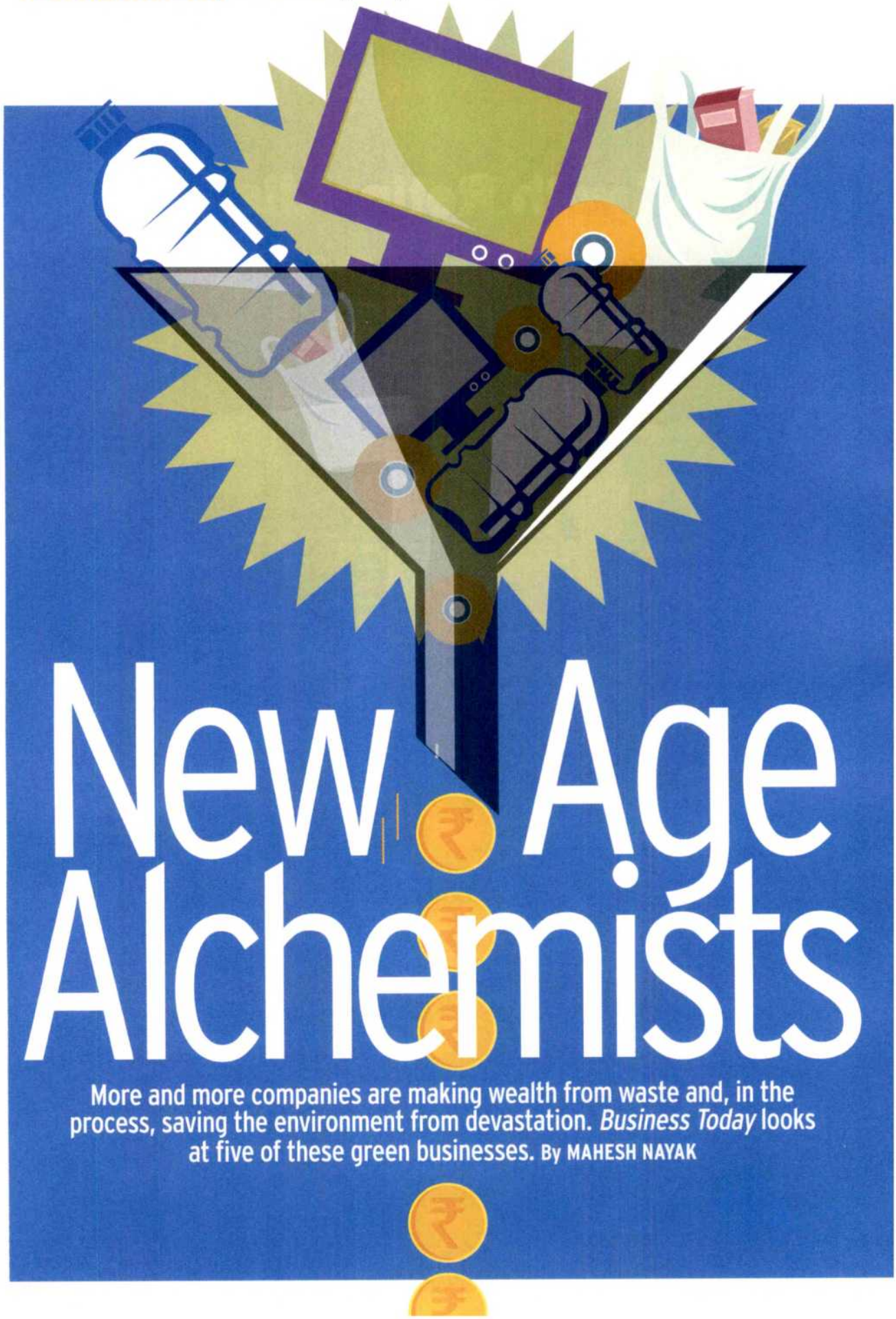
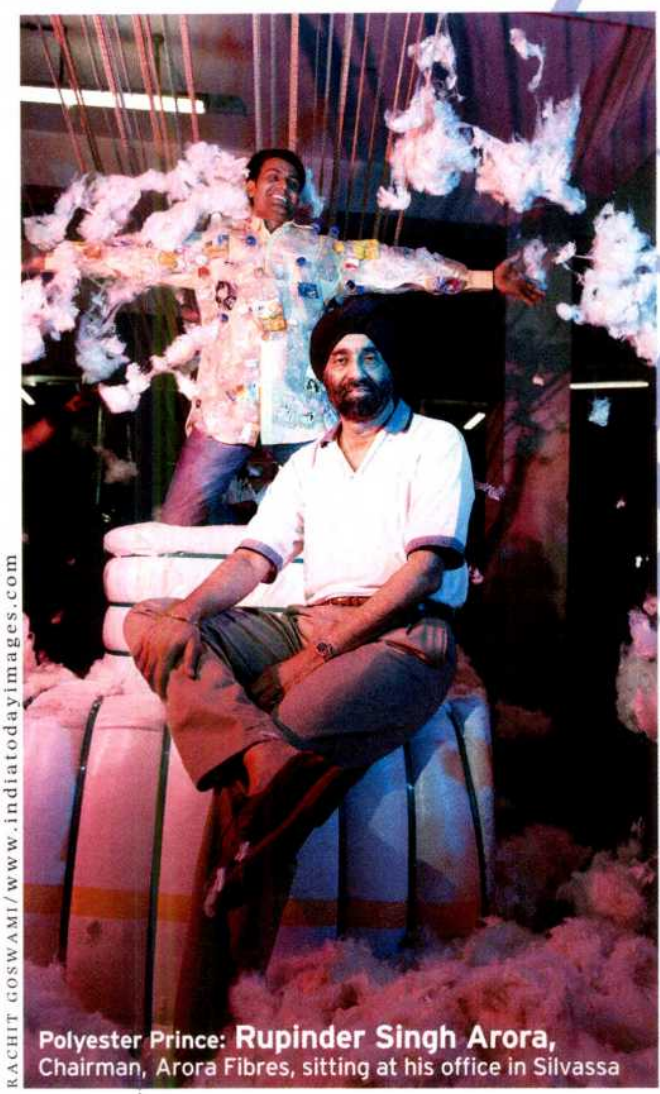


New Age Alchemists

More and more companies are making wealth from waste and, in the process, saving the environment from devastation. *Business Today* looks at five of these green businesses. By MAHESH NAYAK

Fabric from Plastic

Arora Fibres recycles discarded plastic bottles into polyester used as packaging material



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Polyester Prince: Rupinder Singh Arora, Chairman, Arora Fibres, sitting at his office in Silvassa

Don't chuck out those plastic bottles that have been piling up in your kitchen for days. They can be re-used to make polyester fabric. Rupinder Singh Arora, Chairman of Arora Fibres Ltd, has been recycling discarded plastic bottles into polyester staple fibre since 1994 after he saw the colossal damage to the environment from mountains of bio-degradable plastic being burned in the country. "We were the pioneers in this field. Apart from a commercial interest, converting PET into polyester has a huge positive impact on the environment," says Arora. PET stands for polyethylene terephthalate.

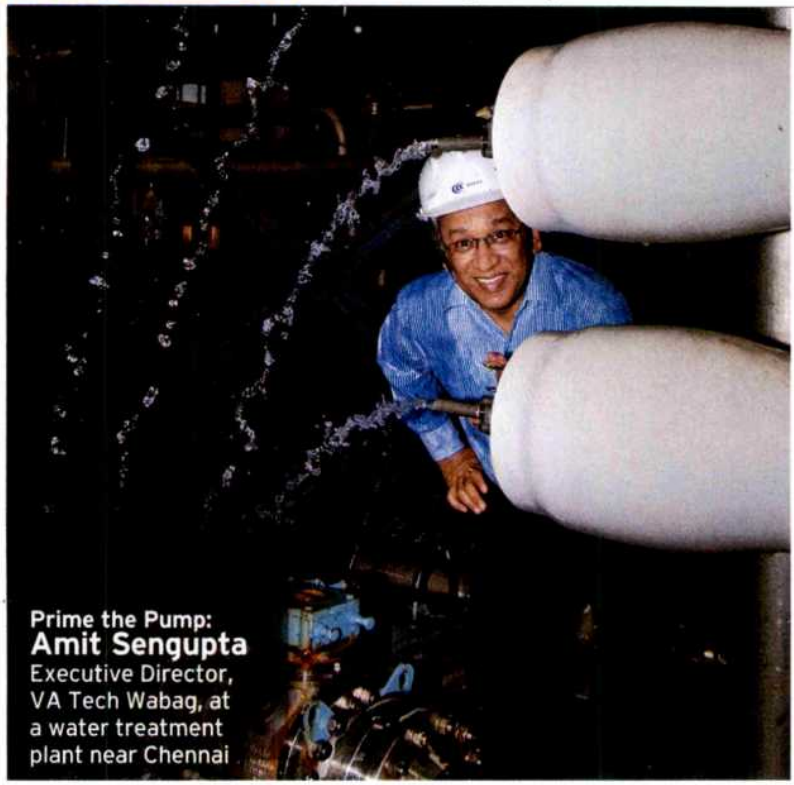
Arora brought the technology to India after tying up with Korean company Mijung, which specialised in converting PET bottles into polyester yarn. His factory in the industrial belt of Silvassa in Dadra & Nagar Haveli has the capacity to process 18,000 tonnes of plastic a year and he plans to increase that to 48,000 tonnes by next year. Arora says the environmental benefit of recycling discarded plastic bottles is enormous. "By recycling 10 billion PET bottles, one can save one million square yards of landfill space and eliminate 0.25 million tonnes of carbon dioxide released into the atmosphere. And recycling one kg of PET saves around 25,000 BTUs (British Thermal Units)," he says.

Plastic has clearly been profitable for Arora Fibres. It tapped the primary market in 1994 to raise ₹9.6 crore to set up the Silvassa plant and logged ₹34 crore in revenues in the financial year that ended March 2013. It hopes to touch ₹75 crore this year. The polyester fibre has a huge market in many industries such as automobiles and is also used as packaging material for beverages, food products, pharmaceuticals, and consumer and industrial products.

But the business has had its ups and downs. Although there are about 20 players who convert nearly 300,000 tonnes of PET bottles into polyester fibre each year, the industry depends on rag pickers for raw material. Arora says the industry was also hit by an increase in raw material prices and a fall in finished product prices. "The shortage of raw material and the power problems until 2010 in Silvassa have been the reasons why others overtook us in the business," he says. "Despite competition and profitability getting squeezed, net margins remain healthy at 10 per cent."

Plastic has been profitable for Arora Fibres: **the company hopes to touch ₹75 crore** in revenues this year

H.K. RAJASHEKAR



Prime the Pump: **Amit Sengupta** Executive Director, VA Tech Wabag, at a water treatment plant near Chennai

Liquid Gold

Wabag is helping companies clean up their act by reusing waste water

It is sometimes said that water, and not oil, is the real liquid gold today. Water technology company VA Tech Wabag would certainly agree. The Chennai-based company recycles industrial and municipal waste water either for reuse as drinking water or to plough back for industrial use.

And money has been flowing like water. Executive Director Amit Sengupta says 10 to 15 per cent of the company's revenues come from recycling, but he expects it to account for 50 per cent of Wabag's business in the next 10 years. Last year, the company recorded revenues of ₹1,000 crore in India.

Wabag has helped many companies clean up their act. Six years ago, it stepped in to help Indian Oil Corp's Panipat refinery when a farmers's lobby in Haryana raised a hue and cry over the company's waste water discharge. The water treatment company recycled the entire plant's waste water discharge and made it as pure as drinking water. It will build an effluent treatment plant with recycling facilities for Reliance Industries' purified terephthalic acid plant in Dahej and a tertiary treatment plant for the Reliance petrochemicals complex in Hazira.

Sengupta says though a scare resource, water is cheap in India and people will not reuse it until the government comes out with strict rules or water becomes more expensive. So, how much of the waste water is reusable? "The short answer is 'All of it'," says Sengupta. "But it depends on the quality for reuse as per customer requirements."

Recycled industrial and municipal waste water is used as drinking water or ploughed into industry

Green Power

Hanjer is turning solid waste into fuel to run power plants

Ever wondered what happens to all that garbage at landfills dotting your city? You'd be surprised. Some of it can actually be recycled to generate power. Waste management company Hanjer Biotech Energies realised that when it kickstarted India's first green power plant in Jalgaon in Maharashtra this year by using a byproduct of solid waste as fuel. The biomass power plant had been closed because of the unavailability of husk rice, the raw material for fuelling the plant, which pushed Hanjer to turn to refuse derived fuel (RDF) from municipal solid waste to generate seven megawatts (MW) of green power.

The concept of converting waste to energy is not new, but Mumbai-based Hanjer plans to take it to a new level following the success of its experiment in Jalgaon. It plans to take over four to five closed biomass power plants in Maharashtra, Madhya Pradesh and Rajasthan to generate around 40 MW of green power and then set up a green power plant in Surat, Gujarat that runs completely on fuel from solid waste. Usually, 20 to 30 per cent of supporting fuel such as coal or oil is used along with RDF to generate power.

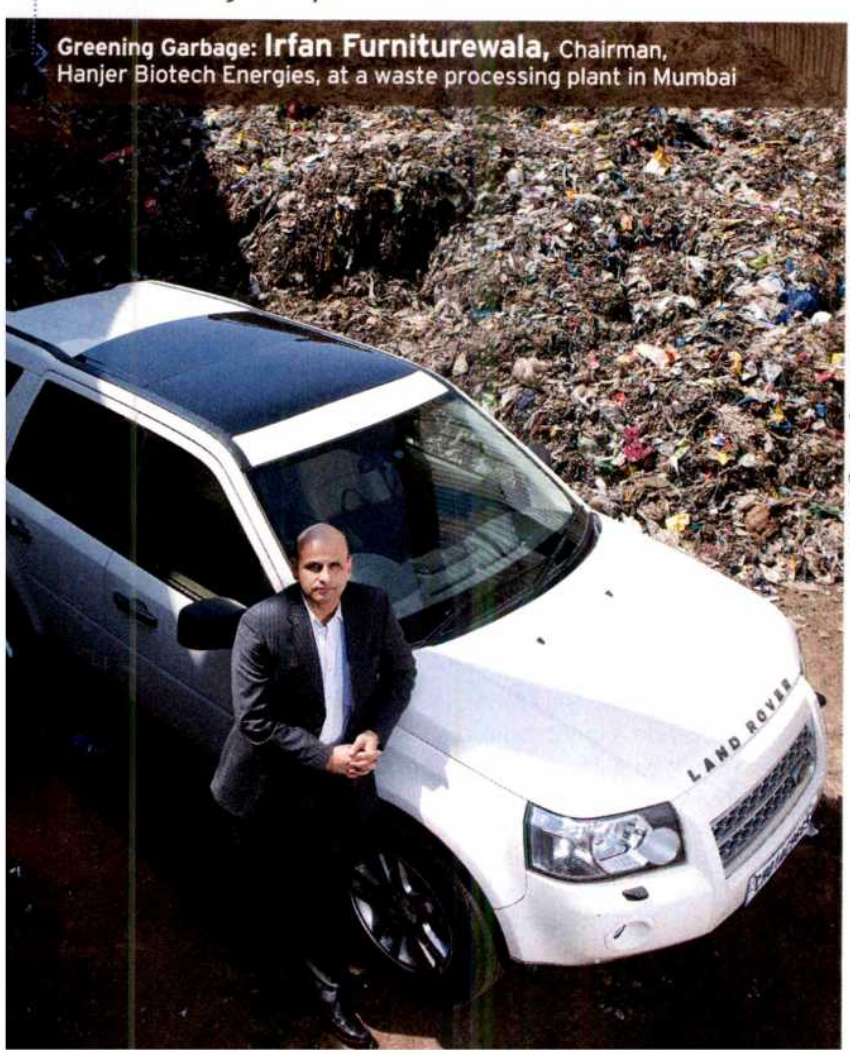
The plant in Surat will use

For earlier stories on waste recycling, go to
www.businesstoday.in/archives-jun0913

green fuel derived from waste from three of the company's solid waste processing facilities in the state to generate 15 MW of power. The plant has the potential to reduce green house gas emissions and will earn carbon credits for Hanjer. "Of the total 9,100 tonnes of waste which we process, around 18 to 20 per cent is green RDF. With the amount of green RDF produced after recycling the waste, we can run six 15 MW power plants," says Irfan Furniturewala, Founder and Chairman of Hanjer.

How does the system work? Simple, green RDF is generated from dry municipal solid waste that is dried, crushed, screened and packed into brick form. The clean and non-polluting fuel is used as a substitute for conventional fossil fuels such as coal which is in short supply. Hanjer posted revenues of ₹410 crore in 2012/13 in an industry growing at 20 per cent a year.

Hanjer plans to take over **four to five closed biomass power plants to generate around 40 MW** of green power



Greening Garbage: Irfan Furniturewala, Chairman, Hanjer Biotech Energies, at a waste processing plant in Mumbai

NISHIKANT GAMRE/www.indiatodayimages.com

Towering Heights

Microqual uses power transmission towers as telecom towers

Next time you drive along the Mumbai-Pune express highway and don't experience any dropped calls on your cellphone, you should thank Mahesh Choudhary. He is the CEO of Microqual Techno, a telecom infrastructure services company that has tied up with Mumbai-based outdoor advertising company Guju Ads to use its 1,000 billboards and hoardings across 13 cities as telecom towers sites. "This will help telecom companies bring down operational costs by 40 per cent and capex by 30 per cent," says Choudhary, who sees huge potential from the new initiative as 35 per cent of India still does not have mobile coverage and more than 50 per cent does not have a continuous mobile network.

Microqual is the first company in India to use power transmission towers as telecom towers. Apart from putting telecom antennas on the power transmission towers and running them as telecom mobile towers, the company is also capturing power that is lost during transmission and distribution to supply electricity to the telecom towers. Two sites are already operational – one in Kolar in Karnataka and another in Baddi in Himachal Pradesh. Microqual has exclusive rights for 10 years to use 85,000 Power Grid Corp of India transmission towers across Jammu & Kashmir, Rajasthan, Himachal Pradesh

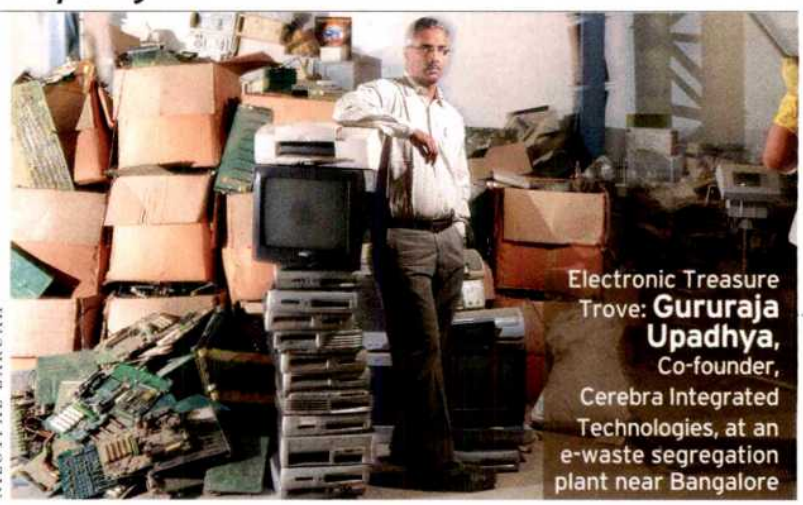
and Punjab. Only 50 towers have been put to use so far.

The journey to turn idle or waste resources into wealth started three years ago in Kerala when mobile services company Aircel wanted to set up telecom towers but found it difficult to operate within the cost it had estimated. Microequal used a combination of solar and wind power to operate the telecom tower site and cut fuel expenses by 40 per cent. The innovation is paying off: the company posted ₹600 crore in revenues last year. "In the next three to four years, the innovative vertical will account for 25 per cent of our business," says Choudhary.

Microqual is also capturing **power lost during transmission to supply electricty to telecom mobile towers**

RACHIT GOSWAMI

Upwardly Mobile: **Mahesh Choudhary** CEO, Microqual Techno, at his office in Mumbai



NILOTPAL BARUAH

Electronic Treasure Trove: **Gururaja Upadhya,** Co-founder, Cerebra Integrated Technologies, at an e-waste segregation plant near Bangalore

Cleaning e-Wasteland

Cerebra will extract precious and other metals from mountains of e-waste

Twenty years ago, tossing out an old toaster or much-used iron was unthinkable in India. Today, people don't think twice before changing computers and mobile phones almost every year. So, what happens to all the old gadgets and gizmos? They end up as e-waste.

One Bangalore-based infotech company, Cerebra Integrated Technologies, is doing its bit to reduce the glut of e-waste that some activists say is potentially the most dangerous waste problem in the world. It is building India's largest e-waste recycling plant that will begin operations by the end of this year. The plant will have the capacity to process close to 90,000 tonnes of e-waste. "We wanted to find a solution to dispose of the e-waste left after the repair and refurbishing process was completed, and realised there were only one or two medium-sized players in this business," says Gururaja Upadhya, Co-founder and Director-Technical at Cerebra Integrated Technologies.

But e-waste is also a treasure trove of precious and other metals. Cerebra sees big business in the mountains of e-waste in Bangalore which produces 200,000 tonnes of e-waste a year. The company plans to make its millions by extracting metals such as gold and platinum from the e-waste piling up in the city. A mobile phone, for example, is made up of a combination of rare earth and precious metals: it contains 250 mg of silver, 24 mg of gold and nine mg of palladium while a laptop has 1,000 mg of silver, 220 mg of gold and 500 grams of copper.

The company is building **India's largest e-waste recycling plant** with the capacity to process 90,000 tonnes of e-waste

Cerebra hopes to wrap up its ₹110-crore acquisition of Singapore-based Cimelia Resource Recovery this year, as part of its plans to make its mark in the global e-waste business. "The recycling business will bring in the maximum revenues for the group. In the next three to five years, we expect the business to be in excess of ₹500 crore," says Upadhya. "More than 50 per cent of the company's revenue and profit would come out of our e-waste business."

Clearly, that's one recycle bin that's emptied regularly – but not deleted permanently. ◆

Send your comments to editor.bt@intoday.com

Online: The Best Way to Invest in Mutual Funds

Over the last few years, mutual funds as an investment vehicle have gained immense popularity among retail investors. From managing assets worth Rs 1 lakh crore in the early 2000s, today mutual funds manage asset worth Rs 8 lakh crore. Along with the growth in types of products and schemes, the number of ways in which one can invest into a mutual fund has also grown. However, gone are the days of the agent advised you to invest into a New Fund Offers (NFO) or the equity mutual fund scheme that typically offered higher commission. Mutual fund investors are not exactly a pampered lot these days. Chances are if you approach a mutual fund agent, he will either offer you an excuse or sell you a higher commissioned product like a unit-linked insurance plan (ULIP) or both. This is the sad truth for the mutual fund industry after the scrapping of entry loads, the bread earner for most advisors.

Having said that, investors needn't lose heart. Even if you do not have an agent that you can depend on, you can invest in a mutual fund through the online route. Besides offering a seamless way of investing in a mutual fund, it also unburdens you from falling prey to dubious agents. The online facility of investing into a mutual fund scheme is available through your broker platform, the ssset management company (AMC) website, or through independent portals. Through the online facility you can purchase, redeem, switch, register for systematic transactions (SIP/STP/TIP), view your account details, view your portfolio valuation as well as download account and capital gain statements. These platforms have also tied up with leading banks for seamless online payments. Once you have opened your account with the respective facilitator and completed the one time formality like filling up the form and submitting the relevant documents like the KYC, this mode will enable you to save a lot more time since you will be able to buy funds at the click of a button. These facilitators provide a well-diversified set of investment products under a single sign-on and completely paper-less investing experience. Also, this comes at no extra cost to an investor, unless specified. Brokers and independent portals run by advisors may charge a transaction fee for the service provided, a lumpsum or through a slab structure.

Ideally, investors must employ a full-service broker who provides them with a platform to invest in various products within the financial services spectrum. An AMC website allows you to invest in products of the particular AMC alone, not to mention the various personal identification numbers (PINs) that you need to remember if you invest in different AMCs.

A carefully prepared financial plan requires investors to invest across various asset classes and products. For a novice investor, the personalised advice offered by full-service brokers will help gain confidence in the market as well as help in financial planning. Such brokers help you pick a fund based on your investment objective, plan a long-term portfolio, allocate your assets and may offer assistance in tax planning as well. A broker that provides comprehensive research and monitoring services may be better suited. They will provide tools to keep track of your holdings along with in-house research and analysis to help you build the ideal portfolio. Some brokers also offer education programs for new and experienced investors. You may need these if you are new to investing.

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Two tech support companies aim at servicing computers, mobile phones and other gadgets you own.

By NANDAGOPAL RAJAN

LET US FIX YOUR PC

At the high-tech DLF Cybercity business park in Gurgaon, near Delhi, a bunch of boards in a new building block points to the offices of iYogi. No, the company is not in the business of yoga. Rather, it provides technical support over the telephone for computers, connected devices and smartphones in more than a dozen countries, including the United States. Set up in 2007, iYogi began offering services in India only this March. Why? "We had been thinking of starting in India for four years," says co-founder and CEO Uday Challu. "But as our international services were growing rapidly we thought we should consolidate those before looking at new markets."

The company's rapid growth is apparent from its financials, with annual sales touching $100 million (about ₹540 crore). This has attracted a host of investors. iYogi has raised $72 million from venture capital firms Canaan Partners, Sequoia Capital India, SVB India Capital Partners, SAP Ventures and Draper Fisher Jurvetson. In the US, iYogi has a network of 15,000 technicians on retainership who are called as per the expertise needed and location. It employs around 5,000, and will recruit more for the India business.

A couple of kilometres away, in Gurgaon's Udyog Vihar, is the company that will be iYogi's main competitor in India, eTechies. Founded in 2010, this was the first branded multi-city tech support company in the country for individual consumers and small businesses. "We all quit cushy jobs to take up this venture," says CEO Rohit Chaudhary, who co-founded it with two others, Siddharth Bhatia and Samarth Goyal.

The trio had previously worked at outsourcing companies Spectramind and Quattro BPO. Old associate Rajan Anandan, who now heads Google India, soon came in as an angel investor. Venture capital firm Inventus Capital Partners later invested ₹10.5 crore in eTechies. Today, eTechies

iYogi
Set up in **2007**, it offers services in over a **dozen** countries

PHOTOGRAPHS BY ADITYA KAPOOR; IMAGING BY RAVI

"In the US, 90% customers prefer the assisted do-it-yourself approach"
Uday Challu, Co-founder and CEO, iYogi

gets up to 300 calls a day in six cities. It also hopes to expand overseas.

Strangely enough, eTechies and iYogi are the only branded multi-city tech support companies in India that cater to individual PC users and small businesses. There are companies that provide the service within a city or a specific region, but none does so across the country. Companies like Hi-Tech Informatics handle multi-city tech support for manufacturers, but never directly for the customer. All major PC makers provide after-sales support to large clients, but they have not created a sustainable model to cater to the individual consumer.

Such a consumer still relies on the neighbourhood technician to fix all problems he has with his PC, once the warranty on it expires. "The problem of providing tech support to large enterprises was solved a decade ago. The question was how to solve the problem for individuals and small businesses," says Alok Mittal, Managing Director at Canaan Partners. "The key factors here are acquiring customers at a lower cost and then having a platform that can service a large number of customers in a standardised manner."

Apart from the fact that one focuses mainly overseas and the other on the local market, there are other key differences between the two companies. iYogi mainly provides remote service and sends technicians when required. eTechies uses remote support when home visits by technicians are not enough to solve a problem.

Chaudhary says India is not ready for remote tech support alone. iYogi's Challu disagrees. "In the US, over 90 per cent customers prefer solving the issue in an assisted do-it-yourself format rather than getting someone home," he says. Challu is confident that iYogi's strategy of being a sort of family doctor for gadgets, with their technicians knowing the client history and the devices he owns, will work in India. Swati Sasmal, Vice President for Research and Consultancy at Kolkata-based market intelligence firm AMI Partners, feels the same. "Remote support can be more appealing since it entails fast, effective and hassle-free solutions for consumers," she says.

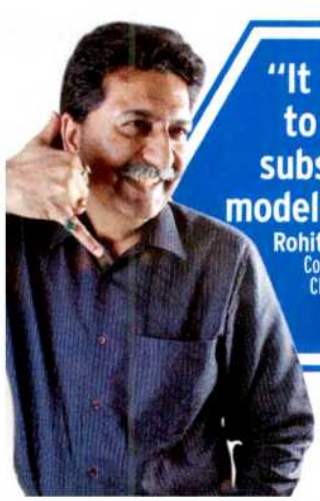
The two companies' payment models also differ. iYogi prefers subscription-based services, while eTechies thinks pay-for-service is a better option. "It is tough to build a subscription model," says Chaudhary. "With a five to 10 per cent renewal rate at the consumer level it is not very easy. But the subscription model can work with small businesses where the renewal rate is about 90 per cent."

iYogi plans to get customers to sign up for a subscription after the first service. Its annual package for individual customers in India costs ₹2,599 (about $48), less than a third of the $169.99 it charges its clients in the US. It also has a pay-for-service model. eTechies charges upwards of ₹1,500 for onsite tech support and ₹600 for each remote support call.

eTechies caters to customers who run small offices and have multiple PCs, such as doctors and architects. iYogi is offering services to small and medium businesses with up to 100 PCs in the Gurgaon-Manesar belt. Vishal Dhar, iYogi's co-founder and President-Marketing, says the market to provide tech support to small businesses in India is worth at least ₹10,000 crore. This is almost double the consumer market, he says.

Both iYogi and eTechies agree that sending technicians to customers' homes is risky, as they can do freelance work on the side or come to their own arrangements with clients. So iYogi engages in a three-way conference call with the client and technician while eTechies uses an application downloaded on the technicians' phones to track them real time.

Will the two companies be able to exploit the vast opportunities available? Their record so far suggests they have a very good chance. ◆



"It is tough to build a subscription model (in India)"
Rohit Chaudhary, Co-founder and CEO, eTechies

eTechies
Set up in **2010**, it provides services in **six** Indian

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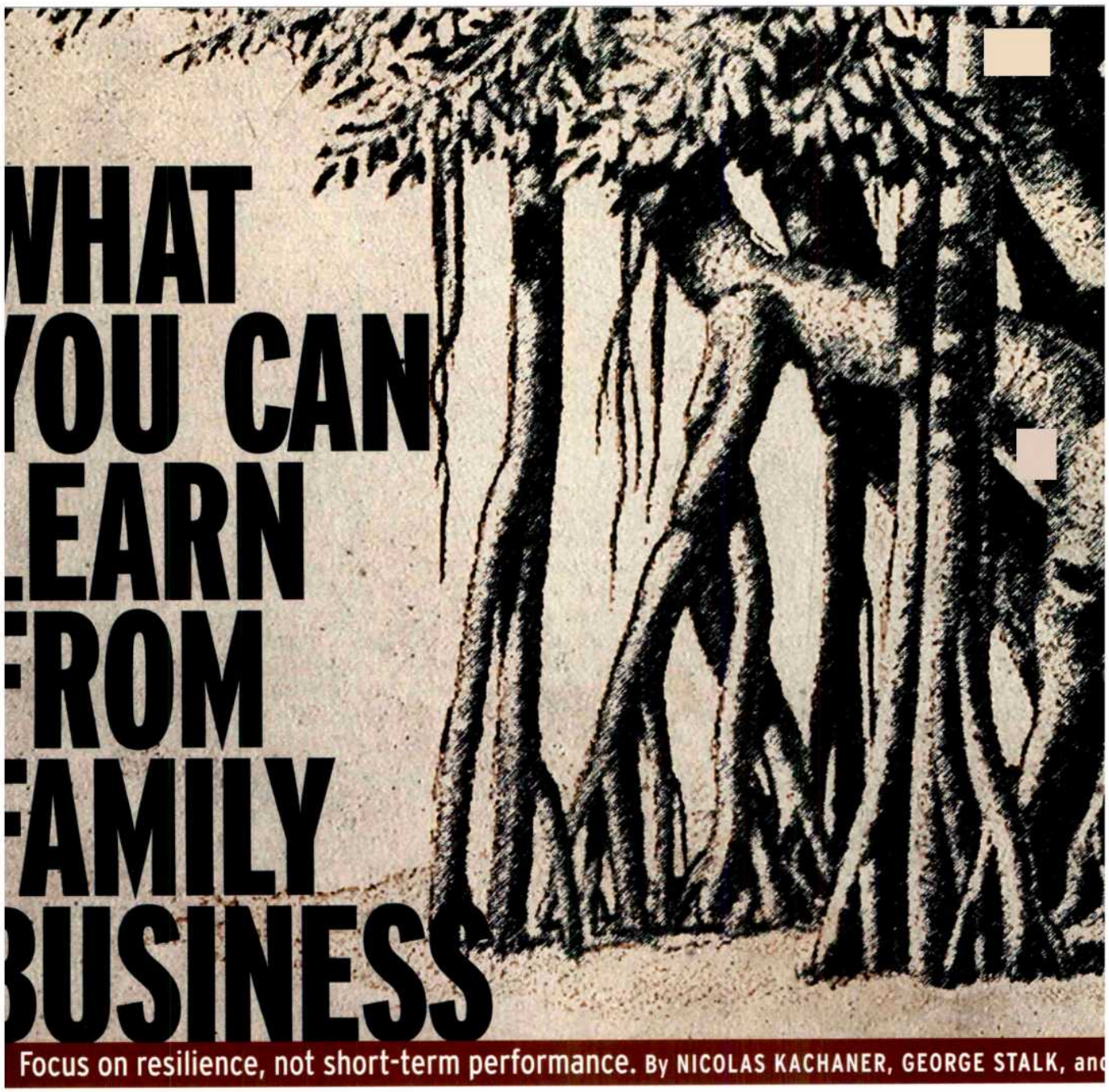
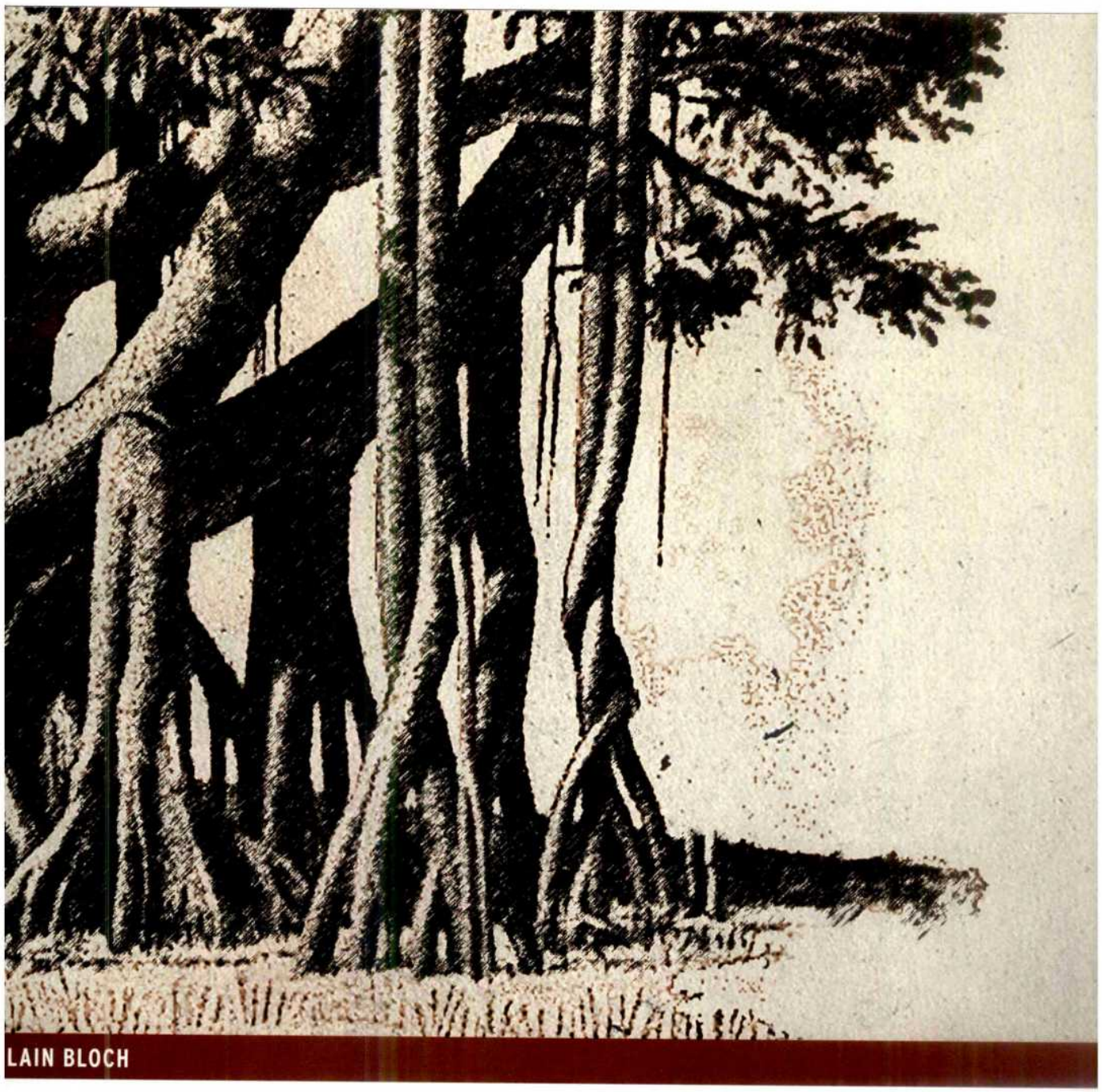


WHAT YOU CAN LEARN FROM FAMILY BUSINESS

Focus on resilience, not short-term performance. By NICOLAS KACHANER, GEORGE STALK, and

To many, the phrase "family business" connotes a small or midsized company with a local focus and a familiar set of problems, such as squabbles over succession. While plenty of mom-and-pop firms certainly fit that description, it doesn't reflect the powerful role that family-controlled enterprises play in the world economy. Not only do they include sprawling corporations such as Walmart, Samsung, Tata Group, and Porsche, but they account for more than 30 per cent of all companies with sales in excess of $1billion, according to the Boston Consulting Group's analysis.

Conventional wisdom holds that the unique ownership structure of family businesses gives them a long-term orientation that traditional public firms often lack. But beyond that, little is known about exactly what makes family businesses different. Some studies suggest that, on average,



LAIN BLOCH

they outperform other businesses over the long term – but other studies prove the opposite.

To settle that question, we and Sophie Mignon, an associate researcher at the Center for Management and Economic Research at École Polytechnique, compiled a list of 149 publicly traded, family-controlled businesses with revenues of more than $1 billion. They were based in the United States, Canada, France, Spain, Portugal, Italy, and Mexico. In each business a family owned a significant percentage, though not necessarily a majority, of the stock, and family members were actively involved both on the board and in management. We then created a comparison group of companies from the same countries and sectors, which were similar in size but not family controlled. (We didn't look at Asian companies because so many of them are family controlled

that it's difficult to find a suitable comparison group.) Then we did a rigorous analysis of the ways in which those two sets of companies were managed differently and how that affected performance.

Our results show that during good economic times, family-run companies don't earn as much money as companies with a more dispersed ownership structure. But when the economy slumps, family firms far outshine their peers. And when we looked across business cycles from 1997 to 2009, we found that the average long-term financial performance was higher for family businesses than for nonfamily businesses in every country we examined.

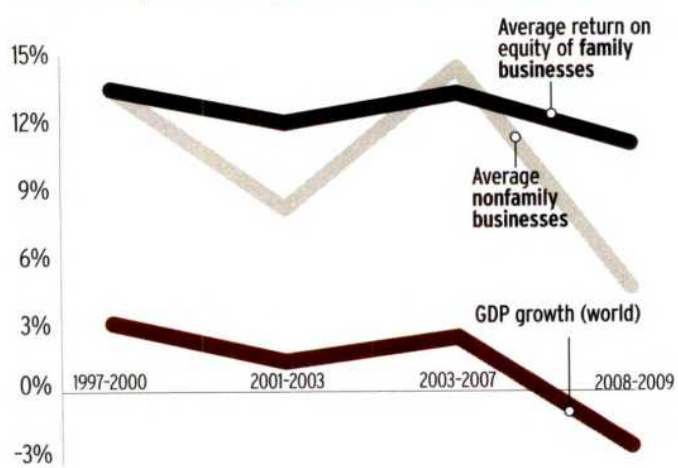
The simple conclusion we reached is that family businesses focus on resilience more than performance. They forgo the excess returns available during good times in order to increase their odds of survival during bad times. A CEO of a family-controlled firm may have financial incentives similar to those of chief executives of nonfamily firms, but the familial obligation he or she feels will lead to very different strategic choices. Executives of family businesses often invest with a 10- or 20-year horizon, concentrating on what they can do now to benefit the next generation. They also tend to manage their downside more than their upside, in contrast with most CEOs, who try to make their mark through outperformance.

At a time when executives of every company are encouraged to manage for the long term, we believe that well-run family businesses can serve as role models. In fact, in our research we were able to identify several companies with dispersed ownership whose strategies mimicked those of family firms. Those companies also exhibited a similar performance pattern: below their peers during upturns but leading the pack in times of crisis. (See *It Operates Like a Family Business* – but It's Not.)

So how do family-run firms manage for resiliency? We've identified seven differences in their approach:

THE LONG-TERM VIEW OF FAMILY-BUSINESS PERFORMANCE

Though family-run companies slightly lag their peer group when the economy booms, they weather recessions far better



1 They're frugal in good times and bad

After years of studying family businesses, we believe it's possible to identify one just by walking into the lobby of its headquarters. Unlike many multinationals, most of these firms don't have luxurious offices. As the CEO at one global family-controlled commodity group told us, "The easiest money to earn is the money we haven't spent." While countless corporations use stock grants and options to turn managers into shareholders and minimise the classic principal-agent conflict, family firms seem imbued with the sense that the company's money is the family's money, and as a result they simply do a better job of keeping their expenses under control. If you examine company finances over the last economic cycle, you'll see that family-run enterprises entered the recession with leaner cost structures, and consequently they were less likely to have to do major layoffs.

2 They keep the bar high for capital expenditures

Family-controlled firms are especially judicious when it comes to capex. "We have a simple rule," one owner-CEO at a family firm told us. "We do not spend more than we earn." This sounds like simple good sense, but the reality is, you never hear those words uttered by corporate executives who are not owners. The owner-CEO added: "We make roughly €450 million of free cash flow every year, so we try to spend no more than €400 million per year, and we keep the balance for rainy days."

At most family firms, capex investments have a double hurdle to clear: First a project must provide a good return on its own merits; then it's judged against other potential projects, to keep spending under the company's self-imposed limit. Because they're more stringent, family businesses tend to invest only in very strong projects. So they miss some opportunities (hence their underperformance) during periods of expansion, but in times of crisis their exposure will be limited because they've avoided borderline projects that may turn into cash black holes.

3 They carry little debt

In modern corporate finance a judicious amount of debt is considered a good thing because financial leverage maximises value creation. Family-controlled firms, however, associate debt with fragility and risk. Debt means having less room to manoeuvre

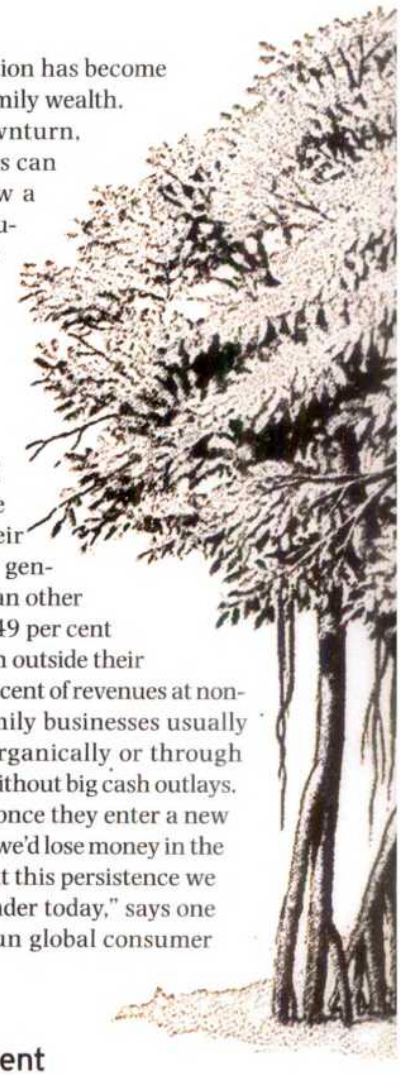
if a setback occurs – and it means being beholden to a non-family investor. The firms we studied were much less leveraged than the comparison group; from 2001 to 2009, debt accounted for 37 per cent of their capital, on average, but for 47 per cent of the nonfamily firms' capital. As a result, the family-run companies didn't need to make big sacrifices to meet financing demands during the recession. "People think we are rich and courageous," one executive from a family firm told us, "but in fact we are cowardly – we leave most of the cash in the company to avoid giving away too much power to our banks."

4 They acquire fewer (and smaller) companies

Of all the plays a manager can make, a sparkly transformational acquisition may be the hardest to resist. It carries high risks but can pay large rewards. Many family businesses we studied eschewed these deals. They favoured smaller acquisitions close to the core of their existing business or deals that involved simple geographic expansion. There were significant exceptions to this rule – when the family was convinced that its traditional sector faced structural change or disruption or when managers felt that not participating in industry consolidation might endanger the firm's long-term survival. But generally, family companies aren't energetic deal makers. On average, we found, they made acquisitions worth just two per cent of revenues each year, while nonfamily businesses made acquisitions worth 3.7 per cent – nearly twice as much. Family businesses prefer organic growth and will often pursue partnerships or joint ventures instead of acquisitions. As the HR director of a leading family-owned luxury goods company described it: "We don't like big acquisitions – they represent too much integration risk, you may get the timing wrong and invest just before a downturn, and more importantly, you may alter the culture and fabric of the corporation."

5 Many show a surprising level of diversification

Plenty of family-controlled companies – such as Michelin and Walmart – remain focused on a core business. But despite a generation's worth of financial wisdom that diversification is better done by individual investors than at a corporate level, we found a large number of family businesses – such as Cargill, Koch Industries, Tata, and LG – that were far more diversified than the average corporation. In our study 46 per cent of family businesses were highly diversified, but only 20 per cent of the comparison group were. Some family firms had expanded into new lines of business organically; others had acquired small entities in new fields and built on them. The CEOs we spoke with say that as recessions have become deeper and more frequent, diversification has become a key way to protect the family wealth. If one sector suffers a downturn, businesses in other sectors can generate funds that allow a company to invest for the future while its competitors are pulling back.



6 They are more international

Family-controlled companies have been ambitious about their overseas expansion. They generate more sales abroad than other businesses do; on average 49 per cent of their revenues come from outside their home region, versus 45 per cent of revenues at nonfamily businesses. But family businesses usually achieve foreign growth organically or through small local acquisitions – without big cash outlays. And they are very patient once they enter a new market. "We accepted that we'd lose money in the US for 20 years, but without this persistence we would not be the global leader today," says one executive from a family-run global consumer products company.

7 They retain talent better than their competitors do

Retention at the family-run businesses we studied was better, on average, than at the comparison companies; only nine per cent of the workforce (versus 11 per cent at nonfamily firms) turned over annually.

The leaders of family companies extol the benefits of longer employee tenures: higher trust, familiarity with coworkers' behaviours and decision making, a stronger culture. These businesses have a lot in common with what the academics Karlene Roberts and Karl Weick call "high-reliability organisations," in which long-serving teams of specialists develop efficient team dynamics and a collective mindset that helps them achieve goals. Says the CEO of one $10 billion diversified group: "We don't have the smartest guys out there, but they know their job like nobody else, and when a problem hits they can act immediately as a team – one that has been there before."

Interestingly, family businesses generally don't rely on financial incentives to increase retention. Instead, they focus on creating a culture of commitment and purpose,

IT OPERATES LIKE A FAMILY BUSINESS – *BUT IT'S NOT*

It makes sense that family-controlled companies would focus on resilience instead of performance, but why can't other companies mimic that strategy?

In fact, some do. Consider Nestlé. It follows most of the golden rules of family firms. It slightly underperformed its three major competitors during the economic expansions of 1997-1999 and 2003-2007 – but consistently outperformed them in periods of financial stress and crisis. Its leverage is lower: Debt accounts for 35 per cent of its capitalisation, versus an average of 47 per cent among its competitors. Nestlé relies less on acquisitions: Annually, newly acquired businesses account for an average of 3.9 per cent of its revenues, versus an average of 7.8 per cent for its competitors.

Nestlé is also the most diversified of the world's four food giants, in terms of both geography (67 per cent of its sales come from outside its home region, compared with 56 per cent for its competitors) and product lines (which range from pet food to beverages, and from confectionery to pharmaceuticals).

Nestlé is not a unique example. Essilor, the world leader in optical lenses, is another nonfamily firm that mimics these behaviours. It has a culture of cost consciousness, maintains a very low level of debt, and has little staff turnover. Essilor is highly international – and has made many small acquisitions close to the core rather than pursuing big deals. Like Nestlé, it has weathered the recent downturn exceptionally well. In the United States, Johnson & Johnson isn't a family-owned business, but it acts like one, with a low debt-to-equity ratio, a product line that allows its PR people to tout it as "the most diversified global health care company," and a skepticism towards the large transformational mergers that other pharma players routinely attempt.

For years managers have been advised to "think like an owner." The rules of family business show how to translate that thinking into actual strategies. What Nestlé and other nonfamily companies prove is that it's possible to benefit from these rules regardless of ownership structure.

avoiding lay-offs during downturns, promoting from within, and investing in people. In our study we found that they spent far more on training: €885 a year per employee on average, versus an average of €336 at nonfamily firms.

Examine these seven principles, and it becomes clear how coherent and synergistic they are: Adhering to one of them often makes it easier to follow the next. Frugality and low debt help reduce the need for lay-offs, thus improving retention. International expansion provides a natural diversification of risks. Fewer acquisitions mean less debt. Money saved through frugality is invested wisely if the company keeps a high bar on capital expenditures. Instead of working in isolation, these principles reinforce one another nicely.

When we talk with executives at family-controlled firms, they speak derisively about competitors who "bet the farm" or "swing for the fences." They talk about what keeps them up at night. Though they realise they are missing opportunities by being overly prudent, they hope to generate superior returns over time as business cycles turn from good to bad.

It's evident that those cycles are speeding up. If that trend continues, the resilience-focused strategy of family-owned companies may become more attractive to all companies. In a global economy that seems to shift from crisis to crisis with alarming frequency, accepting a lower return in good times to ensure survival in bad times may be a trade-off that managers are thrilled to make. ◆

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LAST BUT NOT LEAST

BOOKS 107 CAREERS 108 PEOPLEBUSINESS 116

Hyundai's i10
Hyundai held a contest for an i10 TV commercial. The prize? Sharing screen space with Shah Rukh Khan in the commercial

The People Know Best

It is not only politicians who say so. Marketers seeking ideas feel the same. Crowdsourcing is the new buzzword in communications.

By SHAMNI PANDE

"Consumers want to participate in the decision-making process ... whether it is a social cause or even having a say in what they consume"

Vidur Vyas, Marketing Director, (Foods) PepsiCo India

It was a dream come true for Bhaskar Kanchan. The Mumbai resident hurriedly scribbled an idea for a contest to write a commercial for his favourite car brand, the i10 – and ended up sharing screen space with superstar Shah Rukh Khan. His winning idea was simple: Kanchan turns into Khan each time he steps into Hyundai Motor India's small hatchback. "I have been a big fan of Hyundai and Shah Rukh Khan always. I'm really excited I am part of this commercial," says Kanchan.

Welcome to the world of crowdsourcing, the practice of tapping the collective intelligence of a large group of people to generate creative ideas for business. Companies in developed markets have been successfully using this method for a bit less than a decade, but it is still a relatively new concept in India. Thanks to the Internet and the digital revolution in the past few years, crowdsourcing is the new buzzword in communications and everybody from government institutions to companies and marketing agencies has jumped aboard the bandwagon to "source" ideas from the "crowd". They use it to seek new ideas through contests and campaigns for everything from commercials to new logos, or to simply gather public opinion on new products.

Experts say the strategy is working like a charm. Nalin Kapoor, Senior General Manager and Group Head, Marketing, at Hyundai Motor India, says the response to the 'Write Your i10 Story' contest was overwhelming: the company received more than 62,000 entries in just four weeks. "Our premium compact car, i10, has more than 1.2 million customers across the globe. To celebrate this achievement and to amplify and communicate with customers, we brought in the concept of crowdsourcing for our campaign," he adds. "Crowdsourcing costs as much as a traditional campaign; however, in terms of impact it is superior to a traditional campaign."

India has seen some massive crowdsourcing campaigns in the past few years. One of the most high-profile was a public design contest by the finance ministry to create a symbol for the rupee. Thousands of people sent in entries before the government zeroed in on the final symbol based on the Devanagari script using the letter Ra. In 2011, Hero MotoCorp India launched its online Billion Voices campaign for which it invited people to sing their interpretation of A.R. Rahman's *Hum Mein Hai Hero* anthem and then created several TV commercials from the content. Anil Dua, Senior Vice President (Marketing & Sales), Hero MotoCorp, says customers uploaded 5,200 videos on the campaign microsite.

Confectionery giant Perfetti Van Melle India crowdsourced the artwork for its Happydent chewing gum fliptop packs through a contest on crowdsourcing specialist Talenthouse's website. The winner was a 23-year-old Mumbai visual communications student. PepsiCo India held a 'Suggest a Flavour' campaign for its wafer brand, Lays, which drew a huge 1.4 million entries. "Today, consumers want to participate in the decision-making process," says Vidur Vyas, Marketing Director (Foods), PepsiCo India. "We see this at all levels, whether it is a social cause or even having a say in what they consume. We picked up this trend over two years ago for our Lays campaign."

Bull's Eye

Crowdsourcing efforts that proved winners

UID's Aadhaar logo

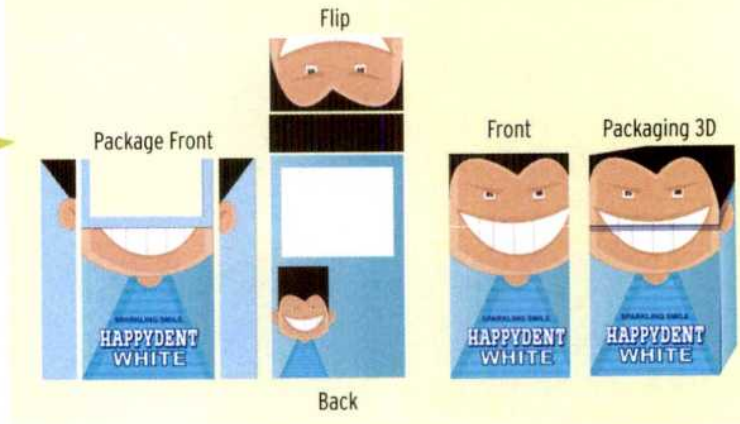
The Indian Rupee Symbol ₹

Some flavours of PepsiCo India's Lays wafers

Some voices on Hero MotoCorp's *Hum Mein Hai Hero* ad campaign

Happydent Chewing Gum

Perfetti Van Melle India held a contest to choose the best design for its new Happydent chewing gum pack. The prizewinning pack (right).



So, how does crowdsourcing work? Simple, some companies such as Samsung and Vodafone work exclusively with specialist agencies such as Talenthouse and Jade Magnet, while others such as Hyundai and Hero go with their regular ad agencies. Some brands stick to online media for crowdsourcing while others use traditional mass media such as television and print to drive consumers to their campaigns. According to Vyas, it depends on the need of the brand. Lays, for example, wanted to generate more hype and communicate with consumers through a traditional medium. But it is not an either-or choice for many marketers. "Each medium has its own benefits. TV is critical for all brand-building initiatives because of its high reach and reminder value whereas print is the apt medium to provide new news and information," says Hero MotoCorp's Dua. "However, significant inroads into these media have occurred with the emergence of digital media and a lot of ideas are now conceived specifically and first for the digital platform and then taken into traditional media."

The winning argument in favour of specialist players such as Talenthouse Entertainment, a joint venture between Reliance ADA Group and Talenthouse Inc, is the cost advantage. Talenthouse Entertainment CEO Arun Mehra says consumer electronics company Micromax approached them to generate ideas from the public for a new brand logo. A typical ad agency would have managed only 30-40 options. "We, however, managed to give them 2,500 logos and also gave them a sample of popular consumer perception of their brand by reaching out to just about anyone wanting to participate," says Mehra, whose agency has 28 brands from India under its belt. The campaign did not just help create a new logo but also secured people's views, for which the company would otherwise have had to conduct market research separately.

> **"We gave them (Micromax) a sample of popular consumer perception of their brand"**
> **Arun Mehra,**
> CEO, Talenthouse Entertainment

Not surprisingly, Manik Kinra, Co-Founder & Chief Marketing Officer, Jade Magnet, finds many small and medium enterprises and even some start-ups using his service to crowdsource ideas. His company not only offers design and logo solutions through crowdsourcing, but also a complete package of creative and digital services such as website designing and gaming application solutions. He has offered Meru Cabs crowdsourced ideas to help choose its interiors. Kinra has also started driving active participation from designers and artists by visiting art schools and design colleges where there is a ready community willing to participate in any invitation for crowdsourcing ideas.

One leading marketing consultant says crowdsourcing is just a fancy new word for what has been around for years and was called customer suggestion. Globally, some experts say the term was coined by Jeff Howe in a 2006 article in *Wired* magazine. Either way, everybody agrees it is an idea that is here to stay. Agnello Dias, Chief Creative Officer of advertising agency Taproot India, says sharp clarity is necessary to evaluate crowdsourced ideas. "If you are looking at interesting options, there are chances of getting swayed and using something that appeals to an individual as opposed to what is needed by the brand," he says. ◆

Send your comments to editor.bt@intoday.com

NANDAGOPAL RAJAN

Tall in One

The one-piece PC, with monitor and CPU merged, may be the rage soon

Three years ago I assembled my last desktop computer. Now I regret not having spent some more money to buy an All-in-One (AiO) instead. An AiO is a monitor that has an in-built CPU, which was traditionally a separate entity. It is a complete computer – powerful enough to woo enterprise users, and affordable enough to interest home users as well. It saves space, which is the primary reason for picking it up. It also has just one power cord in the entire set up. It is high on style and convenience too, much like the legendary Apple iMacs.

Perhaps, back in 2010, it would have been an indulgence to buy a compact AiO, since one would, at the time, have had to compromise on processing power and storage, despite paying a premium for the device. But in the past year or so, the AiO has evolved a lot. It runs high-end processors and has tonnes of storage, while still being a single-wire space saver. It even does stuff a conventional desktop cannot, such as bringing in a touch screen and transforming into a TV if needed. The touch screen makes it ideal for the new Windows 8 platform where you don't always need the keyboard for input, while the TV option will delight those who don't believe in keeping multiple gadgets all over the house.

Sandeep Aurora, Director, Marketing, Intel South Asia, believes there is no reason to keep the AiO away from the home user. "It is the ideal shared device and has now become affordable too," he says. The cheapest AiOs from Lenovo now come for as little as ₹21,990, though the specs in this model are of a kind more suited for families buying their first computer. But there are options available across a wide price range, going up to the top-end iMac and the Lenovo A720.

The AiO is already the fastest-growing segment among computers with a compound annual growth rate of roughly 30 per cent. At 245,000 units, the AiO market in India will be about 17 per cent of all desktop sales in the country in 2013, according to industry estimates. In 2012, it was 11 per cent at 185,000 units. No wonder more manufacturers are entering this segment with multiple product offerings.

Moreover, since an AiO has just one component, it consumes much lesser power. In a country like India this means that while a normal desktop can work a maximum of 15 minutes on the UPS, the AiO can run for a three times longer duration. It is also trying to become a single entertainment and connected computing hub for the home with technologies like OneKey TV that turns the HD display of an AiO into a TV at the click of a button. But don't expect any AiO to have a screen bigger than 30 inches, for that will make it useless as a computer.

Still, there are some disadvantages with the AiO, especially when it comes to upgrading it. The form factor does not make it conducive for users who like to tinker with their machines and upgrade parts regularly. But there are exceptions in this respect too – models like the HP Z1 workstation have a tool-less chassis model that allows easy upgrades and has the lowest downtimes. The big drawback could be the fact that the AiO cannot still take the kind of computing which leads to extreme heat dispersal, such as high-end gaming. But that is very much a niche category.

To repeat what I have said in earlier columns: the desktop is not dead, but it is facing increasingly stiff competition. Chandrahas Panigrahi, Country Manager, Consumer Business, at chipmaker Advanced Micro Devices India, thinks this form factor will become the future of computing as soon as its price difference with the traditional PC narrows a bit more. If you ask me, the gap has already reduced. There is no reason now for me not to upgrade to an AiO when my desktop reaches the end of its life. ◆

The writer is Associate Editor, Gadgets & Gizmos

TB or Not TB?

Tuberculosis is far from being just a poor man's disease, says Dearton Thomas Hector

Dr Gyandeep Mangal is not one to hold the view that tuberculosis (TB) spares the middle and upper class. The senior consultant in respiratory medicine at the capital's Sri Balaji Action Medical Institute recalls a 22-year-old call centre worker who came in for treatment a few months ago. The patient had taken antibiotics for a persistent cough but had not got better. The latest coughing fit, in fact, had brought out sputum with blood in it. "He was diagnosed with TB in the lungs," says Dr Mangal.

A bad cough may well be due to a throat infection, but it is best not to take chances. The same holds for symptoms such as unexpected weight loss, persistent fatigue, fever, shortness of breath or sweating at night – they may have other causes but they should not be ignored. There is infection all around – one-fifth of the world's tuberculosis cases occur in India, about two million people being affected every year, of which around 870,000 are infectious ones, says the World Health Organization (WHO). Around 330,000 Indians die of TB every year.

The disease, caused by a bacterium called *mycobacterium tuberculosis*, is not, contrary to popular perception, confined to the poor. "It is not restricted to any class or stratum," says Dr Vivek Nangia, Head of Department, Pulmonology, at Fortis Hospital in New Delhi's Vasant Kunj. He makes particular mention of one section. "Middle-aged executives are very vulnerable because of their stressed lifestyle," he adds. "Their immunity levels tend to go down when they don't have enough sleep and good eating habits. The chances of TB [incidence] increase if they are smokers too."

WARNING SIGNALS

Watch out for

- Persistent cough, usually for more than three weeks
- Weight loss
- Persistent fatigue
- Blood in sputum
- High fever
- Shortness of breath
- Sweating at night

Nor does it affect only the lungs, though that organ is most frequently hit. It can occur in most parts of the body. It spreads whenever someone carrying the infectious variety coughs or sneezes or even speaks. "The chances of contracting TB are definitely higher for those who work in fully air-conditioned offices if the air-conditioning duct is just recirculating air," says Dr M.S. Kanwar, Senior Consultant, Respiratory Medicine, Indraprastha Apollo Hospital, Delhi. It also spreads easily in enclosed public spaces such as a movie hall or a bus or a train.

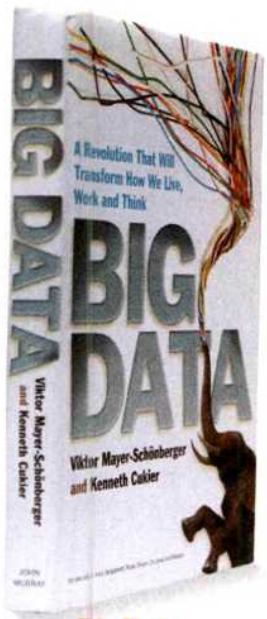
Fortunately, TB is usually easily curable, given the right drugs, primarily Isoniazid and Rifampin. But a new variety resistant to these drugs has lately been seen as well. According to WHO, around 18 per cent of TB cases reported in 2010 were those of multidrug-resistant TB (MDR TB), which needs more specialised treatment. "This is increasing in India, too," says Dr Kanwar. "The treatment has to be carefully followed up with continuous tests. But it is curable." However, testing facilities for MDR TB are still limited worldwide – only 20 of the 36 countries with a high burden of TB have at least one laboratory capable of carrying out 'culturing' of sputum specimens, to pinpoint whether the TB is the MDR variety or not.

In some cases, there are even more severe drug-resistant strains of TB. Extensively drug-resistant TB (XDR-TB), for instance, has high chances of mortality among patients.

The only way to prevent TB is to build up immunity to it. Proper diet and sufficient sleep are essential. "Milk, yoghurt, paneer and soyabean are good sources of proteins, which in turn increases immunity," says Dr Kanwar. ◆

Big Is Beautiful

A book on how and why analysts mine mountains of data, and the pros and cons of doing so



Big Data A Revolution That Will Transform How We Live, Work and Think

By Viktor Mayer-Schönberger and Kenneth Cukier

Hachette India

Pages: 242; Price: ₹499

There is a lot of information around us, and it is growing by the nanosecond. As is well known, every digital or online activity we engage in, leaves behind an imprint, which in turn gets added to this huge, ever-growing information pool. With powerful computing tools employing complex algorithms, it is possible today to plough through this data. Traditional research methods would never have been able to do so. This mining process is called 'Big Data' and it includes searching, capturing, storing, analysing and eventually sharing relevant information with the audience concerned.

Big data is driving the way businesses take decisions and may also, eventually, shape the way our world functions. Given that the term has become a buzzword these days, *Big Data: A Revolution That Will Transform How We Live, Work and Think* is a timely book.

The authors, Viktor Mayer-Schönberger and Kenneth Cukier, make a powerful case for the usefulness of big data when they discuss the 2009 outbreak of the H1N1 virus (which causes bird flu). In this context, they point out how Google, the Internet search giant, contributed to US health-care. Google published a paper in the scientific journal *Nature* predicting the spots where winter flu could occur in the United States. How did it do so? It analysed what people were using its search engine for, and, aggregating the searches, zeroed in on the regions where searches related to winter flu were most frequent.

The book, indeed, shows how Big Data is seamlessly being used by all of us already, when we, for instance, perform mundane activities such as booking airline tickets or ordering books from Amazon.

The book is relevant not only because it discusses the potential of Big Data and shows us how it works, but also because it notes how it is fundamentally altering the way we process and perceive things. For instance, traditionally surveys, using a limited sample size, are able to set down a precise 'margin of error' while releasing their results. But Big Data's sample size is so large and diverse, it cannot provide such a margin. The authors suggest there is no need to be obsessed with exactness, and that insights obtained from Big Data could be more useful than those from traditional surveys, where respondents are carefully selected.

They also emphasise the need to note correlations rather than keep searching for causality. "Knowing 'why' (something happens) might be pleasant, but it's unimportant for stimulating sales. Knowing what, however, drives clicks," they say. Predictions based on correlations lie at the heart of the book. But then, does Big Data mean the 'end of theory', or abandoning the search for underlying principles? The authors discuss this much-debated point and conclude that Big Data itself is founded on theory.

But the book also points to the pitfalls of over-reliance on Big Data, especially when looking at sensitive issues such as crime. Nor should people blindly follow what Big Data throws up. These qualifiers are important, especially at a time when India is undertaking the biggest Big Data project, the Unique Identification Authority of India's Aadhaar programme, which seeks to issue every citizen a unique identification number, linked to his or her demographic and biometric information. ◆

SHAMNI PANDE

This book is relevant not only because it discusses the potential of Big Data and how it works, but also because it notes how it is fundamentally altering the way we process and perceive things

The Risk Seekers

Time was when young companies scrounged to hire managers. Today, a growing number of professionals wants to work with them.

By SARIKA MALHOTRA

Arjun Raychaudhuri spent nearly a decade working for big companies, including financial services provider JPMorgan and management consultancy Oliver Wyman. At his last job – as Senior Associate at J.C. Flowers & Co, a private equity fund specialising in buyouts – Raychaudhuri was based in London, and handled transactions around the world. From there, investing in rural India is a huge leap, but that is what the 32-year-old does today.

The shift was anything but sudden. It started with a chat with IFMR Trust Chairperson Bindu Ananth on a visit to India in mid-2012. The trust, a private body, invests in companies that can improve access to financial services, especially in remote rural areas. It set up a venture called IFMR Rural Channels, which is developing a model to achieve that goal. "I spent about eight months getting to know them and helping with strategic planning," says Raychaudhuri. Early this year, sure he would enjoy the job and could contribute meaningfully, Raychaudhuri quit J.C. Flowers and joined IFMR Rural Channels as Chief Financial Officer.

Raychaudhuri says he believes his new job will let him test his limits and develop skills to complement his strengths. "I enjoy jumping into the thick of things and learning as I go along," he says. "This is an exciting and ambitious journey, and could transform how financial services are provided in rural India." The fact that IFMR Rural Channels is backed by venture capital fund Lok Capital made his decision to join such a young company easier. "Having been an investor, I believe that good VC/PE participation can help companies perform better."

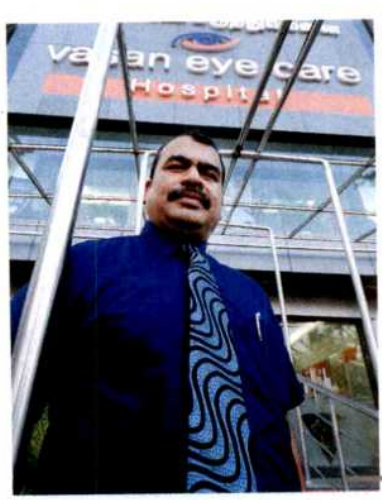
Raychaudhuri is part of a growing brigade of mid-level professionals who choose to work for young companies backed by PE or VC funds. With work experience ranging from eight to 20 years, they are in search of something new and challenging.

Not long ago, VC funds had to scout for professionals and woo them into joining the young companies they backed, but today, experienced professionals are doing so on their own. "Many professionals feel that in a big-company environment, they get boxed in, as they have to work in an already well defined framework," says Sanjeev Aggarwal, Co-founder and Senior Managing Director, Helion Venture Partners. "But in a start-up, they can define the framework and execute to it. They feel empowered."

Professionals who quit big-company jobs to join new ventures draw assurance from the fact that reputed VC and PE funds have done their homework on these companies and found them worth investing in. It also means that the companies, though small, are not starved of funds.

Opportunities in young companies do not generally come via headhunters. Often, they come to people who have worked with the funds or the companies – or the professionals in them – previously, and already have a relationship with them.

For instance, 40-year-old R. Senthil Kumar was looking for a challenge, after 13 years of working at HDFC Bank Ltd. He handled an ₹8,000-crore portfolio, and had a 150-member team reporting to him. He says he was comfortable, and had employee stock options, but "work was getting monotonous". After working occasionally on the account of Vasan Eye Care, an eye hospital chain, he got to know the company well enough to consider a job there a real possibility. "Rather than becom-

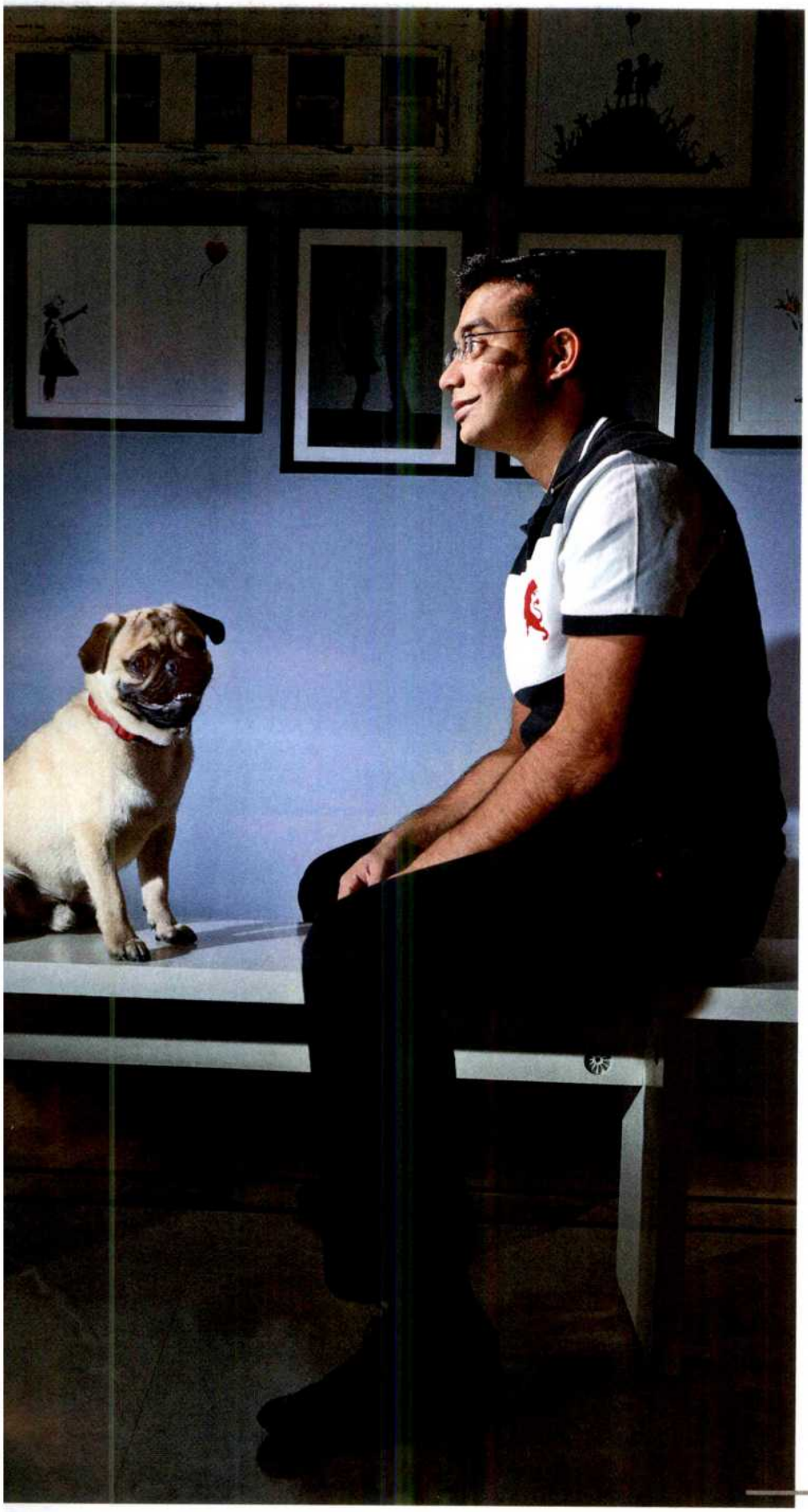


TIPS FROM

R. Senthil Kumar
COO, Vasan Eye Care

Know the company and management well before taking the final call

You are bringing in a new agenda, so your skill sets must match the transformation



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TIPS

For those who intend to join young companies

Arjun Raychaudhuri
CFO, IFMR Rural Channels

Know what you are getting into. What are the people like? What stage of its journey is the company in? Do you have the skills it needs?

Work with the company to understand these questions. Reach your decision carefully, over months, with all parties building a high level of trust

Be selective about whom you discuss things with, and spend time with the senior leadership to ensure your values match theirs

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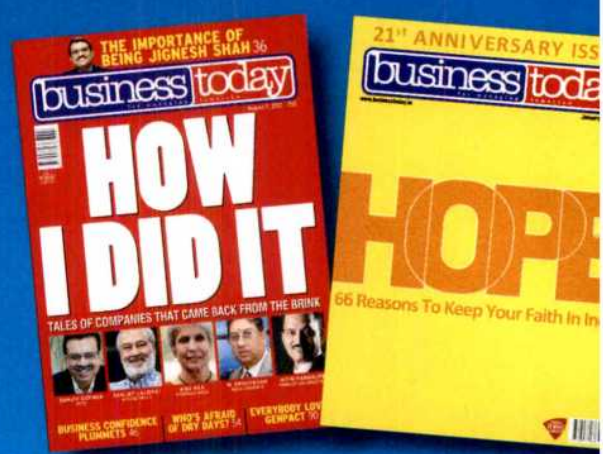

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TIPS FROM

Pavan Vaish
Global COO, UnitedLex

It is dangerous to want the luxury of a large company and the excitement of a small company

Don't switch because you fear failure or want to make money. Your reason has to be something far deeper

ADITYA KAPOOR

ing an entrepreneur and risking it all, it made sense to join a young company where I could be more like an entrepreneur and transform it," he says. "Leading a young company is an alternative to growing something of your own."

He adds that the fact that Vasan Eye Care had the backing of VC firm Sequoia Capital gave him more comfort than working for a family-run business. He joined Vasan as Chief Operating Officer in late 2011.

His advice to anyone considering a shift: "You are bringing in a new agenda. Your skill sets must match the transformation. Most people go wrong here – they tend to take control from day one. One should gradually introduce changes and then take control."

Helion's Aggarwal says more and more people are reaching out to funds like his, expressing interest in the companies in its portfolio. "Every day I meet one or two people who tell me to introduce them to our portfolio companies," he says. "That change is very palpable."

For many, the switch is not only from a big company to a small one, but also from one sector to another, as it was for 43-year-old Bhaskar Bagchi, who had 20-odd years of work experience with companies such as Citibank, Standard Chartered, Tata AIG, IBM, and HCL Technologies. When he decided to quit his job as senior vice president for banking and financial services at HCL and join IndiaHomes.com, a real estate portal, he knew hardly anything about the real estate industry. He was introduced to IndiaHomes by Helion's Aggarwal, who has invested in the portal. Bagchi took the plunge and joined the company in mid-2011.

He says smaller organisations and start-ups offer more learning opportunities and unstructured work environments, and there is a strong sense of ownership. They are also more nimble than large companies, and this frees up managers to adjust strategy rapidly based on feedback.

Of course, some were making the switch from whale to minnow before it became a trend. Pavan Vaish was CEO of IBM Daksh, the business process outsourcing pioneer. "What I really wanted was a set-up where I walk in through the door and get goose pimples, where I am able to fundamentally alter people's lives in a meaningful fashion," he says. "At IBM, things had reached a stage and scale where it was becoming increasingly difficult to do that. I wanted to get the zing back." So he quit IBM and joined Canaan Partners-backed UnitedLex, a legal process outsourcing company, in early 2012. It was not an easy decision. "I had to come to terms to the fact that I was willing to fail," he says. IBM was a familiar environment for him, and he knew he had everyone's respect.

"As long as I was scared of failure, I would not leave IBM," he adds. "Within oneself, one has to get comfortable with the idea of trying something new, with the possibility of failing and yet taking it in one's stride. That's when you will take the jump. It is never about money, it is about your passion getting ignited."

But the soaring talk must be backed by action, Vaish says. "Many people romantically talk about start-ups and joining young companies, but few will take the plunge, only because of the fear of failure," he says.

Helion's Aggarwal concurs. "Many people reach out to funds to be a part of portfolio companies, but when the time comes to take the decision, they cringe. Not that the conversion rate is 100 per cent now, but many more are joining than before," he says. ◆

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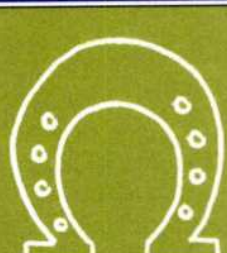

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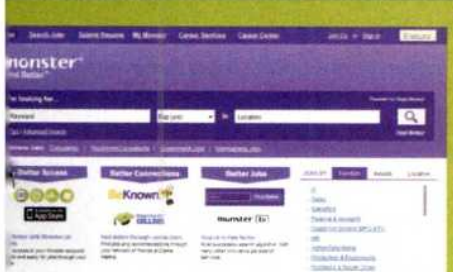

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Milind Shah
VP, South Asia, Medtronic

Large-hearted

MILIND SHAH, Vice President for South Asia, and Managing Director, India, of global medical technology company Medtronic, is passionate about his company's 'healthy heart for all' campaign. This consists of holding screening camps across the country at which visitors undergo cardiac checks – so far, 30,000 have been screened. A separate programme updates doctors on the latest developments in cardiology, and has to date covered 5,000 of them. Medtronic has also started an EMI scheme, providing loans for cardiac treatment. So far there have been no defaults. Bangalore-based Shah is also a fitness enthusiast who hates having to skip his daily workout, even while travelling.

VIVAN MEHRA

VIVAN MEHRA/www.indiatodayimages.com

Start-up Prodigy

Nineteen year old **RITESH AGARWAL** has just won the Thiel Fellowship, a $100,000 grant instituted by the Co-founder of PayPal, Peter Thiel, and given annually to "20 people under 20" of outstanding merit, who are ready to skip college to focus on their passion. Born in Bissam Cuttack village in Orissa, Agarwal founded Oravel.com – which helps people find clean, comfortable and affordable short-stay accommodation – when he was 18. As a Thiel Fellow, Agarwal will receive mentoring not only from Thiel himself, but also a host of other luminaries, such as Sean Parker, Co-founder of Facebook and Napster, and Elon Musk, Co-founder of PayPal, Tesla and Space X. Unlike most winners, he will not be moving to San Francisco for the fellowship, preferring to travel there at regular intervals. What does he do beyond work? "I love playing basketball" he says.

SARIKA MALHOTRA

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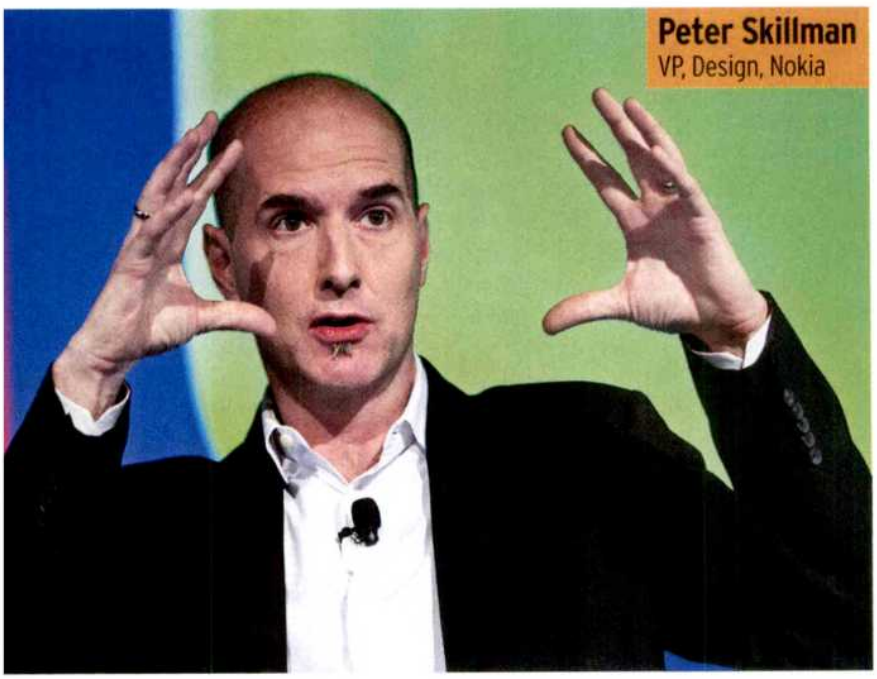


Bright Is Right

If you thought handset maker Nokia would limit bright red and yellow shades to its Lumia range, you were mistaken. **PETER SKILLMAN**, Vice President, Design, at Nokia, and the man behind the design of the Asha Series smart feature phones, says these colours, will now appear across all Nokia phones, giving them a unique brand identity. About Nokia's latest device, the Asha 501, Skillman says: "It was our unconventional thinking. Everyone is trying to build the bigger, faster phone. Instead, we are saying what is really important is durability, cost, battery life and performance. Performance is not just a feature in a phone, it is the only feature."

NANDAGOPAL RAJAN

Model Chief

Nearly four months after announcing its full-fledged entry into the Indian aviation sector, in partnership with the Tata Group, AirAsia has appointed **MITTU CHANDILYA** as CEO of its Indian operations. An MBA from the business school INSEAD, Chandilya a part-time model and a former entrepreneur, will be based in his hometown Chennai. With most domestic carriers struggling with high operating costs and losses, Chandilya has his job cut out for him. AirAsia, which will follow the low-cost airline model, starts with four aircraft. It intends to avoid Mumbai and Delhi airports to begin with, because of their high landing costs and other charges.

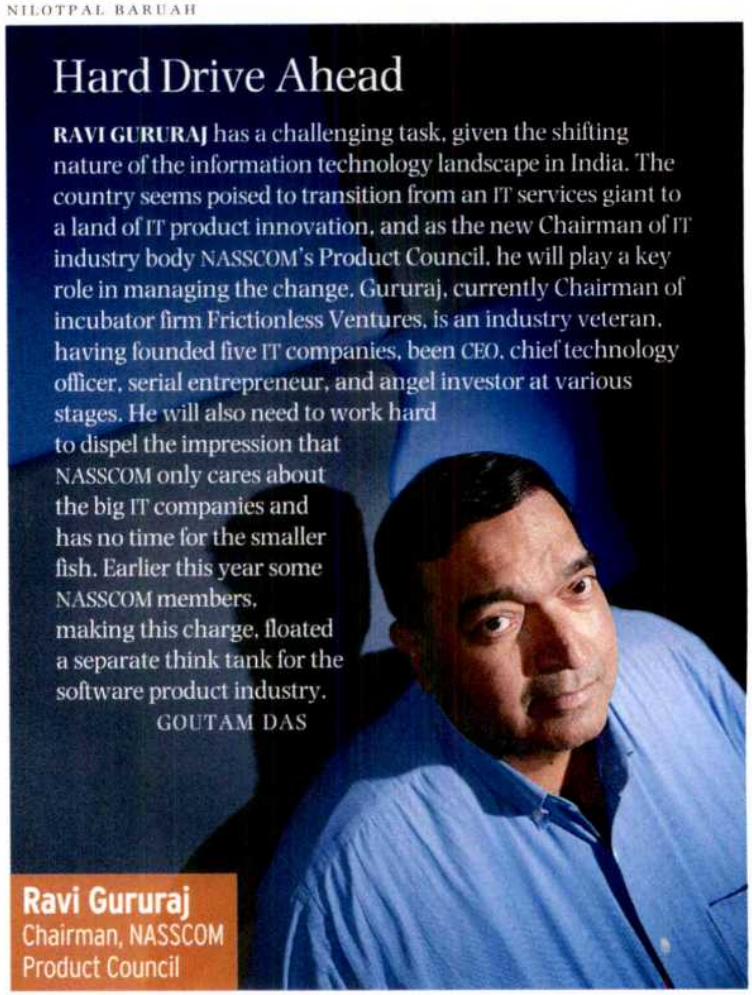
MANU KAUSHIK

NILOTPAL BARUAH

Hard Drive Ahead

RAVI GURURAJ has a challenging task, given the shifting nature of the information technology landscape in India. The country seems poised to transition from an IT services giant to a land of IT product innovation, and as the new Chairman of IT industry body NASSCOM's Product Council, he will play a key role in managing the change. Gururaj, currently Chairman of incubator firm Frictionless Ventures, is an industry veteran, having founded five IT companies, been CEO, chief technology officer, serial entrepreneur, and angel investor at various stages. He will also need to work hard to dispel the impression that NASSCOM only cares about the big IT companies and has no time for the smaller fish. Earlier this year some NASSCOM members, making this charge, floated a separate think tank for the software product industry.

GOUTAM DAS



NISHIKANT GAMRE/www.indiatodayimages.com

Monica Tata
MD, HBO India

Showtime Queen

She claims she has never missed an episode of either *Sex and the City* or *Game of Thrones*, both original shows aired on the HBO channel. "The high drama is absolutely addictive," she says. As the new Managing Director of HBO India, **MONICA TATA** will be watching the channel even more closely now. Her familiarity with HBO goes further, since in her previous role as General Manager (Entertainment Networks) at Turner South Asia, she sold ad inventory for the channel. (Turner distributes HBO in India.) Tata wants to make HBO the most sought after premium subscriber-based channel in India. Apart from HBO, the company also has two other channels, both HD, HBO Hits and HBO Defined, in partnership with Eros. Tata says HBO is a subscriber-based channel globally, and thanks to digitisation, there may be more subscriber-based revenue coming from India too.

AJITA SHASHIDHAR

Double Role

His job may appear glamorous, but it is a complicated one too. **BRIAN POVINELLI** is one of the Global Brand Leaders at Starwood Hotels & Resorts, which manages nine different brands straddling luxury, five star and four star hotels. He himself manages two of the brands – Westin and Le Meridien – which together handle over 300 properties globally. Povinelli's challenge is to effectively convey a different hospitality experience for each brand. He says his earlier eight-year stint with W.B. Doner & Co, an American advertising agency, helps him. "My focus there was the customer of each brand. It is the same here," he adds. Would he like his company to acquire more brands? "Nine are enough," he says.

N. MADHAVAN

Brian Povinelli
Global Brand Leader
Westin Hotels & Resorts

H.K. RAJASHEKAR

DILIP KAPUR
President, Hidesign

My first role model
My uncle, who studied at Harvard Business School. He inspired me to apply to the best American schools, regardless of the fact my family could not afford it

My first guru
My history teacher. She was beautiful and an excellent storyteller

My first job
Making candles for my sister. ₹1 for 15 candles. Truly slave labour

My first boss
Robert Schwartz gave me a job as a dishwasher in his restaurant at Catskill, New York

My first promotion
After two weeks as dishwasher, I became a waiter and Schwartz even let me date his daughter

My first disappointment
Despite my trying really hard, my music teacher told me that I was the most tone deaf person in the class

As told to N. Madhavan

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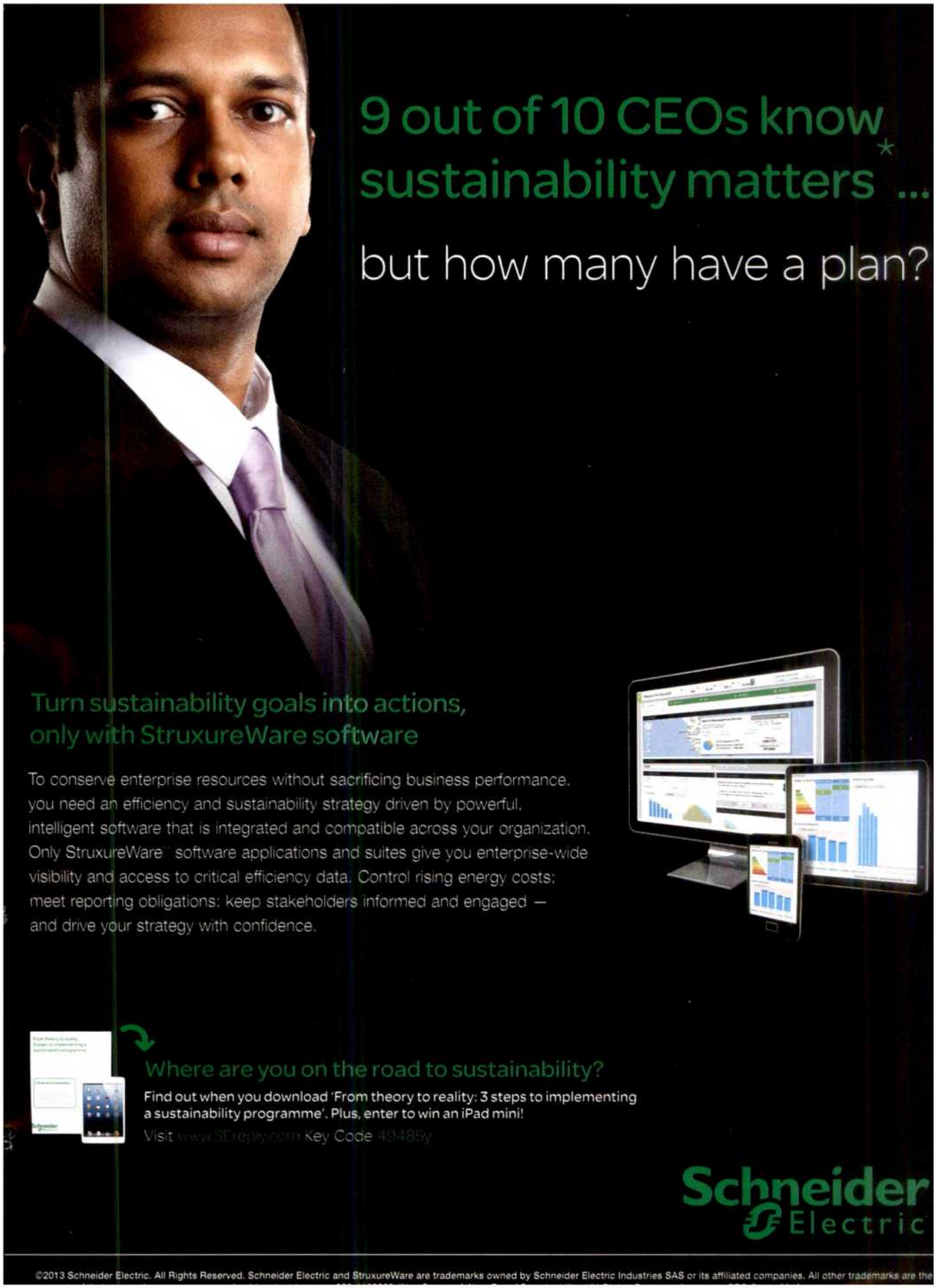
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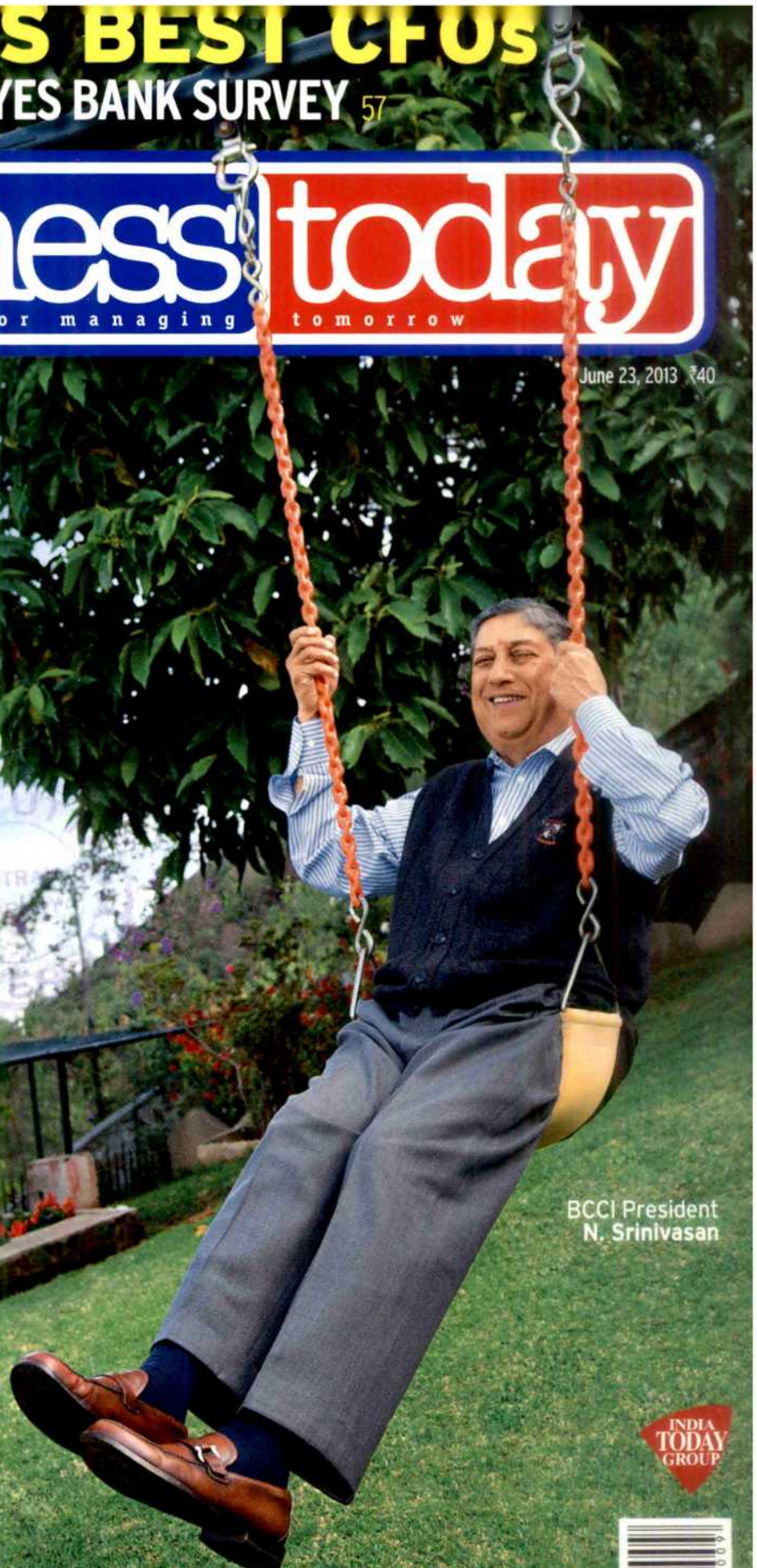

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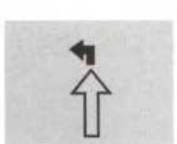

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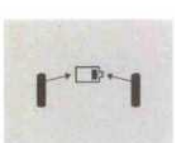

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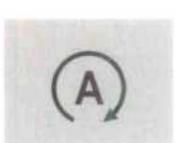

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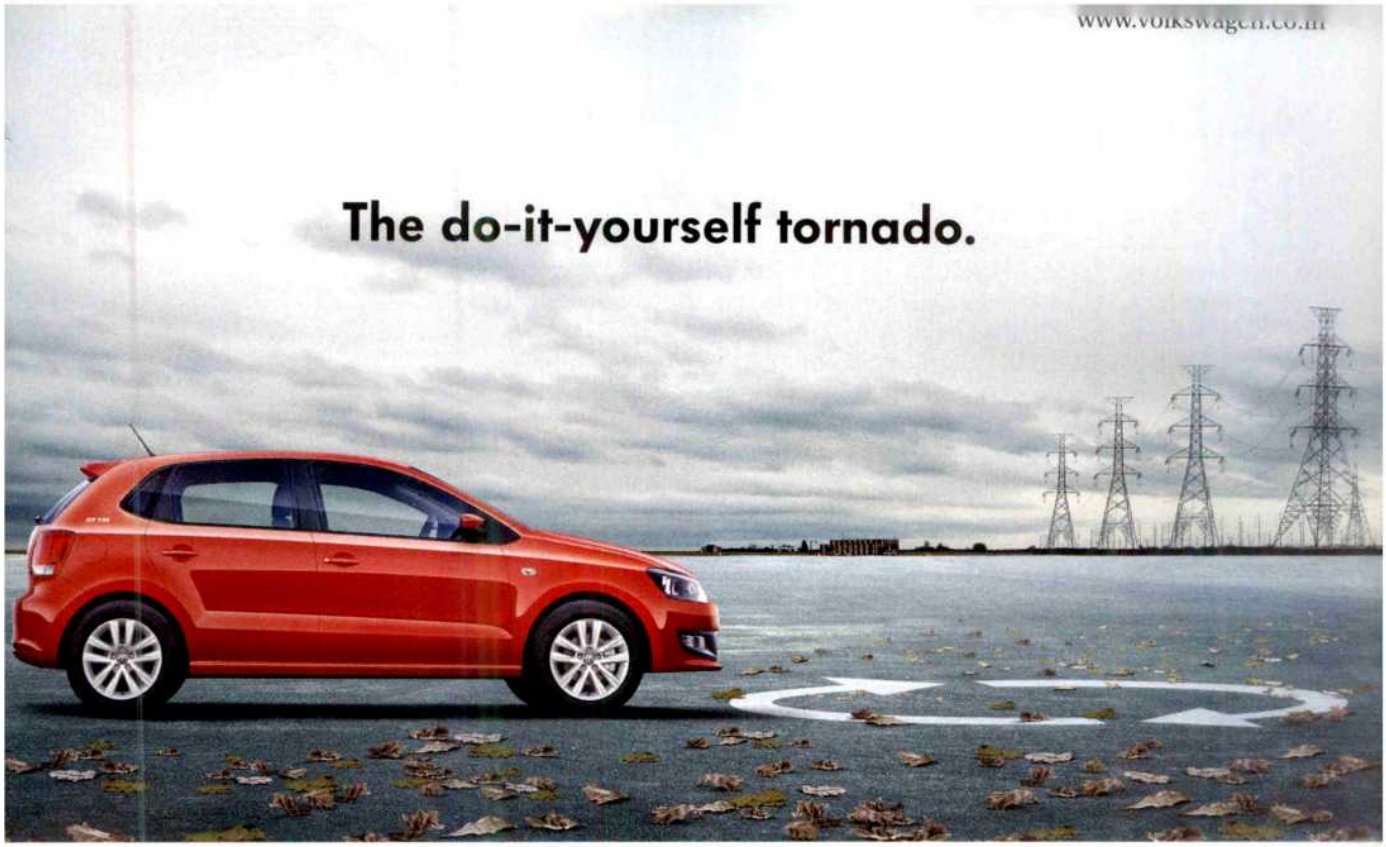

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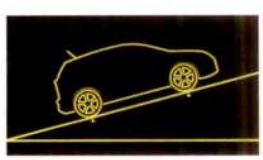

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From the Editor

Business Today's team of reporters was putting finishing touches to the *BT*-YES Bank Best CFO Survey starting on page 57. The 14 men and one woman who have won this year's awards, chosen by a stellar jury after a rigorous nationwide search, bring to life the satisfaction of making those numbers on a balance sheet look very good despite a very challenging business environment. It was shaping up to be a hot but uneventful fortnight.

And then all hell broke loose, and three hammer-blows of bad news fell in quick succession. It seemed nothing could get worse – until the next shocker. For a business magazine like ours, it was doubly troubling to be witness to tales of turpitude that involved prominent businessmen. All three – the deafening clamour for the scalp of N. Srinivasan, President of the Board of Control for Cricket in India in the wake of the cricket betting and spot-fixing scandal that has also enmeshed his son-in-law Gurunath Meiyappan; the abrupt sacking of Phaneesh Murthy, the CEO of iGate, for his third sexual-harassment charge; and the $500 million penalty slapped by the US Department of Justice on Ranbaxy Laboratories for violating FDA rules on drug quality and testing – were management-school case studies of How To Throw Away Your Reputation In Pursuit Of Lust And Lucre.

Even more troubling, all the *dramatis personae* in these tales are charming men who wield great wealth, power and influence.

When I met Srinivasan at his India Cements office in December 2010, he spoke at length about his business and his passion for cricket: his company had traditionally employed some of India's best cricketers. His story is a reminder of the intertwining of politics, patronage, cricket and money. Senior Editor N. Madhavan travelled to Srinivasan's summer retreat in Kodaikanal twice, just before the IPL scandal exploded, for more than five hours of conversation that yielded a compelling tale of a man who has fought ferociously and tenaciously to win in both cement and cricket administration; read all about it from page 44. As we went to press, Srinivasan had dug his heels in and refused to step down as BCCI president despite his son-in-law's arrest and a firestorm of criticism over the conflict of interest with India Cements' ownership of the Indian Premier League team, the Chennai Super Kings – a battle that drove everything else off television news channels.

Murthy, who fell precipitously from being the best salesman at Infosys and the first non-founder to be spoken of as a future CEO after his first sexual-harassment misadventure, seemed to resurrect himself as the head of iGate, catapulting it to a billion-dollar company before crashing again when his board fired him on May 20 for his unreported relationship with a subordinate. It is a sordid tale, and a sad one. People who know him well say Murthy is brilliant, driven and also, like Srinivasan, addicted to winning. Read Associate Editor Goutam Das's chronicle of his fall from page 40.

One week before the Murthy news broke, the US Department of Justice announced that Ranbaxy had pleaded guilty and agreed to the "largest drug safety settlement to date with a generic drug manufacturer" after pleading guilty to felony charges "relating to the manufacture and distribution of certain adulterated drugs". Ranbaxy's troubles date back to before it was acquired in 2008 by Japanese drug major Daiichi Sankyo from Malvinder and Shivinder Mohan Singh, and the DoJ penalty capped a trail of events triggered by a whistleblower. The denouement shone an unwelcome spotlight on the Singh brothers, who head Fortis Healthcare. Our story on Ranbaxy (page 26) is powerfully told through every protagonist – *BT* spoke with every one of them. It is strengthened by co-author Associate Editor E. Kumar Sharma's separate reportage on India's own drug regulations, which badly need revamping (page 34) and strong columns by two women leaders of our pharmaceutical industry – Kiran Mazumdar-Shaw (page 38) and Swati A. Piramal (*www.businesstoday.in/ranbaxy-woes*).

Chaitanya Kalbag

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Change Is the Only Constant

Your cover story on how Google has opted for a new tech path which will change public life (*The Future of Search*, June 9) was worth reading. Kudos to you for getting interviews with the top executives in the organisation. Google Now is indeed a fascinating product from the world's biggest new media company. Executive Chairman Eric Schmidt's remark is much appreciated: "Google's aspiration is to be your assistant, to know what you do not know, and to get that information to you in whatever way it is quickest".

Abhinav P., *New Delhi*

Vulgar Display

The interview of Kishore Biyani (*Vanity and Children Keep Retail Growing*, June 9) was thought-provoking. No doubt, modern retail is about selling new products and new categories and creating a demand for them. But it is only vanity, which leads to vulgar displays of purchasing power.

T.V. Gopal, *Chennai*

Cunning Operators

Your cover story on the Saradha Group (*Unsafe Deposits*, May 26), which duped 1.4 million investors of ₹4,000 crore, was timely. Saradha, like many others of its kind, was not a chit fund. It is a residuary non-banking financial company. In the normal process, the RBI regulates NBFCs, SEBI checks collective investment schemes, and states regulate deposit-taking companies. So, the cunning operators innovate a hybrid model of collecting deposits from the public by which they are not answerable to either the RBI, or the SEBI, or the state. These outfits lure depositors promising high returns and then vanish without trace. They work with a speculative motive, flourish with political patronage and bureaucratic indifference, though many meet their nemesis sooner or later.

K.C. Padhy, *Director, IMIS, Bhubaneswar*

Corrections

The story *Hangout Haven* (May 26, Page 100) incorrectly names one of the co-authors as Margot Hube. Her name is Margot Huber.

The first paragraph of the column *Policy Prescriptions for the Global Crisis* (May 26, Page 30) is an extraneous one, part of another column. This column starts from the second paragraph.

The story *The Future of Search* (June 9, Page 48) says: "Downloads from Google Play... touched 48 billion, closing in on Apple's AppStore... which announced it had crossed 50 million downloads." It should have read "50 billion".

The story *Changing Tack* (June 9, Page 64) says: "ICICI Prudential Mutual Funds AUM has grown from ₹54,355 crore at the end of March 2008 to ₹7,968 crore on March 31, 2013". The second figure should have been ₹87,968 crore.

The story *Face Value ₹100 crore* (April 14, Page 70) says actress Priyanka Chopra had jettisoned celebrity management firm Krossover Entertainment for CAA. Krossover continues to manage Chopra's endorsement portfolio for India. CAA does it internationally.

The errors are regretted.

Send all your comments to editor.bt@intoday.com

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Committed to difficult decisions to boost economy: PM
Probably this is a flash news. This statement we have already heard from the government. - **Dev Bhatia**

Vodafone to invest billions in India, says Kapil Sibal
The government knows best how to hold it and then turn in its favour. - **Shobhit Singh**

COMPAT tells cement firms to pay 10 per cent of ₹6,307-crore penalty
Nothing wil happen. Cement producers will hike the price of cement. And consumers will bear the brunt of price increase. This kind of drama is pretty old. So try something new. - **Hira India**

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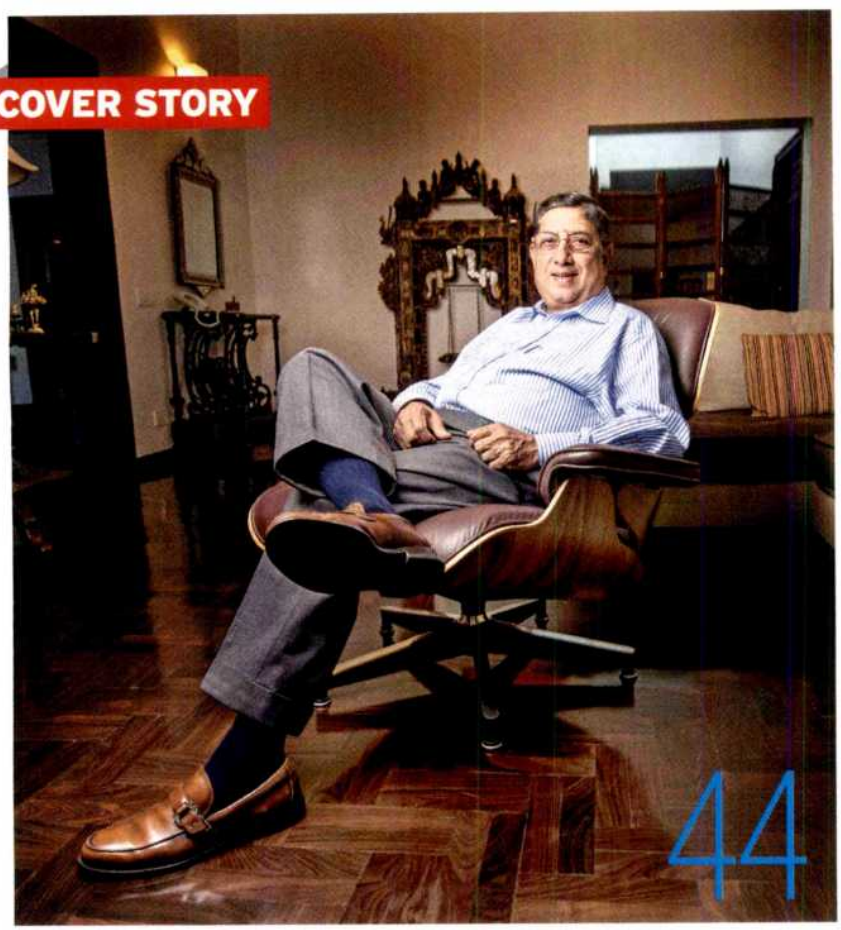

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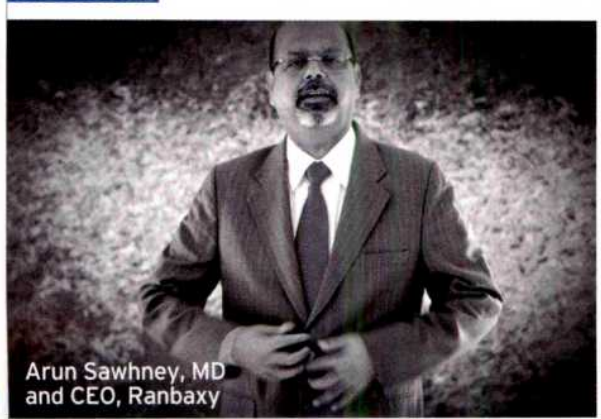

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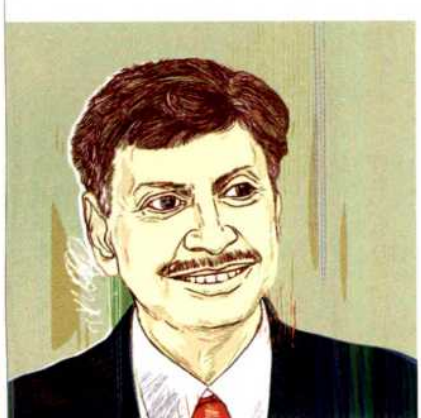

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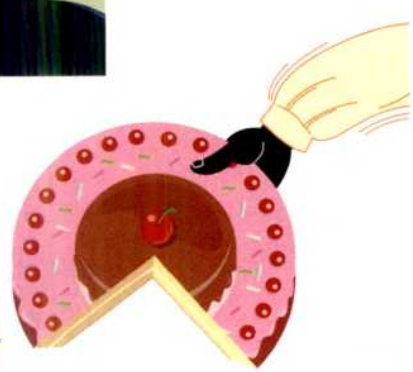

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The Big Chief

Cement made N .Srinivasan, but it is cricket that defines him.
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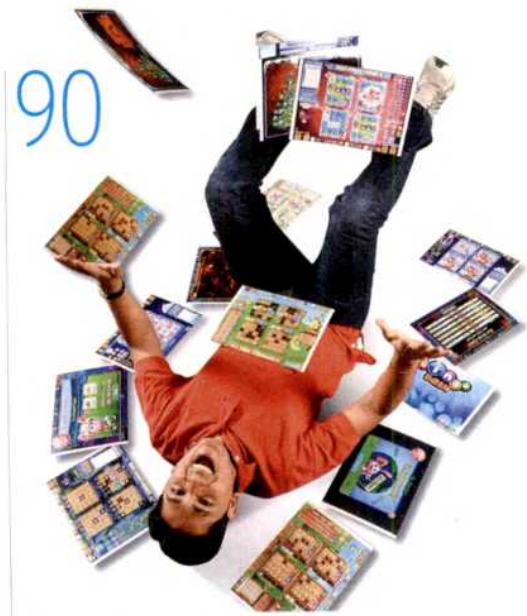

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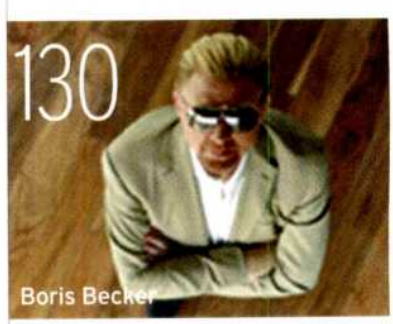

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China Calling: Chinese Premier Li Keqiang (extreme left) promised to open up his country's services industry, during a recent visit to TCS headquarters in Mumbai. Tata Group is the biggest Indian group working in China. IT spending in emerging markets this year is likely to grow 8.8 per cent to exceed $730 billion, with BRICS nations, especially China, dominating the market.

Corporate

Mukesh Ambani's **Reliance Industries** and its partners **Niko Resources** and **BP Plc** have made a **significant gas discovery** in the Krishna-Godavari D-6 block off India's east coast. The discovery is expected to add substantially to the gas resources in the block. Expectedly, RIL stock **rose 5.12 per cent** on May 27 to close at ₹828.25, the company's biggest single-day gain since September 14, 2012. The new discovery comes at a time when RIL's overall gas output from D-6 has been falling.

The much-awaited Goods and Services Tax can only be rolled out after the elections in 2014 when the next government takes charge, said Prime Minister Manmohan Singh during his visit to Japan. The country would return to eight per cent growth path, he promised.

Kerala Police arrested Amway India CEO Scott Pinckney and two of his colleagues, Vice President and Director Sanjay Malhotra and Chief Financial Officer Anshu Budhraja. The trio, who secured bail, face charges of overpricing products and fraudulent practices. Now, India Inc wants a separate regulation for direct-selling firms.

United Spirits, India's largest spirits company, has approved allotment of **14.5 million shares** on a preferential basis to a wholly-owned unit of UK spirits company **Diageo Plc**, as part of the stake sale deal announced in November. United Spirits will allot the shares to the Diageo unit at ₹1,440 a share to fetch ₹2,092 crore. United Spirits is expected to use the new capital to reduce its **debt of over ₹8,000 crore**. Diageo and the **UB Group**, led by Chairman **Vijay Mallya**, will still have to work out their ties following the failure of Diageo's open offer to the public to buy 20 per cent stake of USL.

AirAsia, which smashed order records for Airbus jets to become Asia's largest budget carrier, could buy **another 50 planes** as it targets expansion in India, **CEO Tony Fernandes** said. AirAsia India was on a recruitment spree to get ready for its launch in the fourth quarter.

US retail giant Walmart has pleaded guilty to charges of environmental crimes, including mishandling of hazardous waste and pesticides, and agreed to pay a total of $110 million to settle the cases. Walmart owns more than 4,000 stores across the US that sell thousands of products which are toxic or otherwise hazardous under federal law.

The credit crunch seems to be taking its toll on one of the world's richest Indians, Lakshmi N. Mittal, who has put up one of his mansions in central London for sale. Mittal had bought the property for £117 million in 2008, dubbed the most expensive home in Britain. He may end up making a loss on the neo-Georgian building, which went on the market for £110 million.

Scorecard

Financial results for 2012/13 have been a mixed bag so far. Sun Pharma, Cipla, Mahindra & Mahindra were among the gainers, but Tata Motors and ONGC lost some steam. A snapshot of major corporate results declared recently:

Company	Revenue	YoY Increase (%)	Net Profit	YoY Increase (%)
Britannia	6,136	12%	260	30%
Oil India	9,968	1%	3,592	4%
GAIL	47,333	18%	4,022	10%
Sun Pharma	11,239	40%	3,591	39%
ONGC	76,130	8%	25,123	-17%
Tata Motors	188,818	14%	9,893	-27%
BPCL	242,904	14%	16,052	3%
Cipla	8,087	18%	1,545	35%
Mahindra & Mahindra	68,736	14%	4,099	24%

Figures in ₹ Crore'

Economy

According to executive search firm **MANCER Consultancy**, 10 out of every 100 executives seek jobs with a start-up and **only one aspirant of those 10** actually gets hired. Some of the recent examples of this trend include former **Citigroup CEO Vikram Pandit** who has joined India's JM Financial to lead its ambition of setting up a bank.

A ministerial panel has cleared the **Coal Regulatory Bill**, paving the way for an independent authority to tackle issues of pricing, supply and quality.

The **Reserve Bank of India** has restricted bank loans against units of **gold exchange-traded funds and gold mutual funds.** The RBI also said no advances should be given by non-bank financial companies against **bullion, primary gold and gold coins.** However, the RBI does not want to ban banks from selling gold coins, **Governor Duvvuri Subbarao** said.

175,000

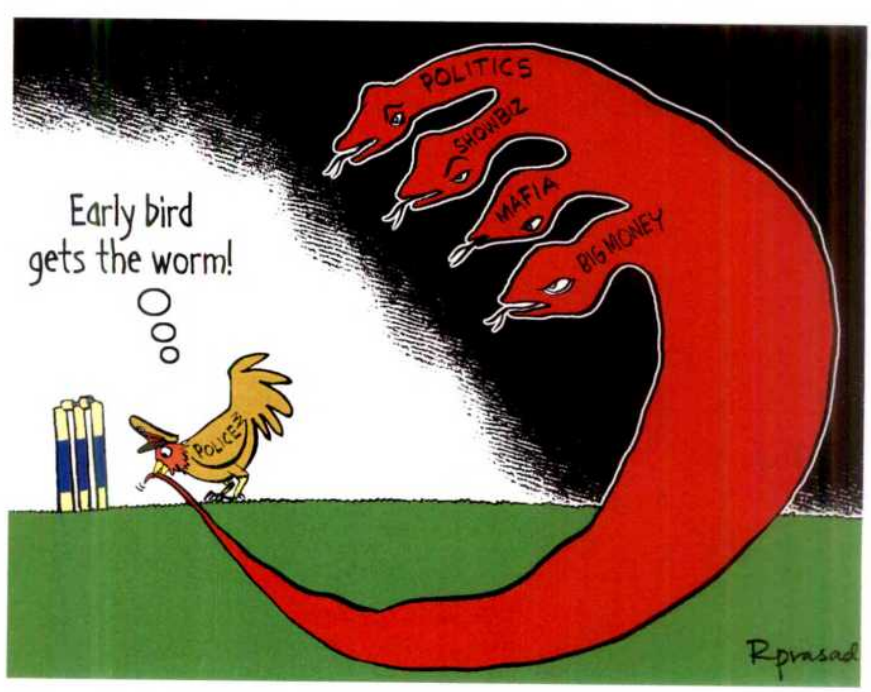
The total number of assessees who received income-tax notices for not filing their tax returns. Around 1.2 million have not filed their returns. All high value transactions - deposits or withdrawals of ₹50,000 or more at one go - are under the tax scanner.

Markets

Promoters will face tough penal action if they do not bring down their holding in listed firms to **75 per cent** by June, warned **Sebi Chairman U.K. Sinha**. 87 actively-traded companies, including 12 state-run units, are yet to comply with the minimum public shareholding norms.

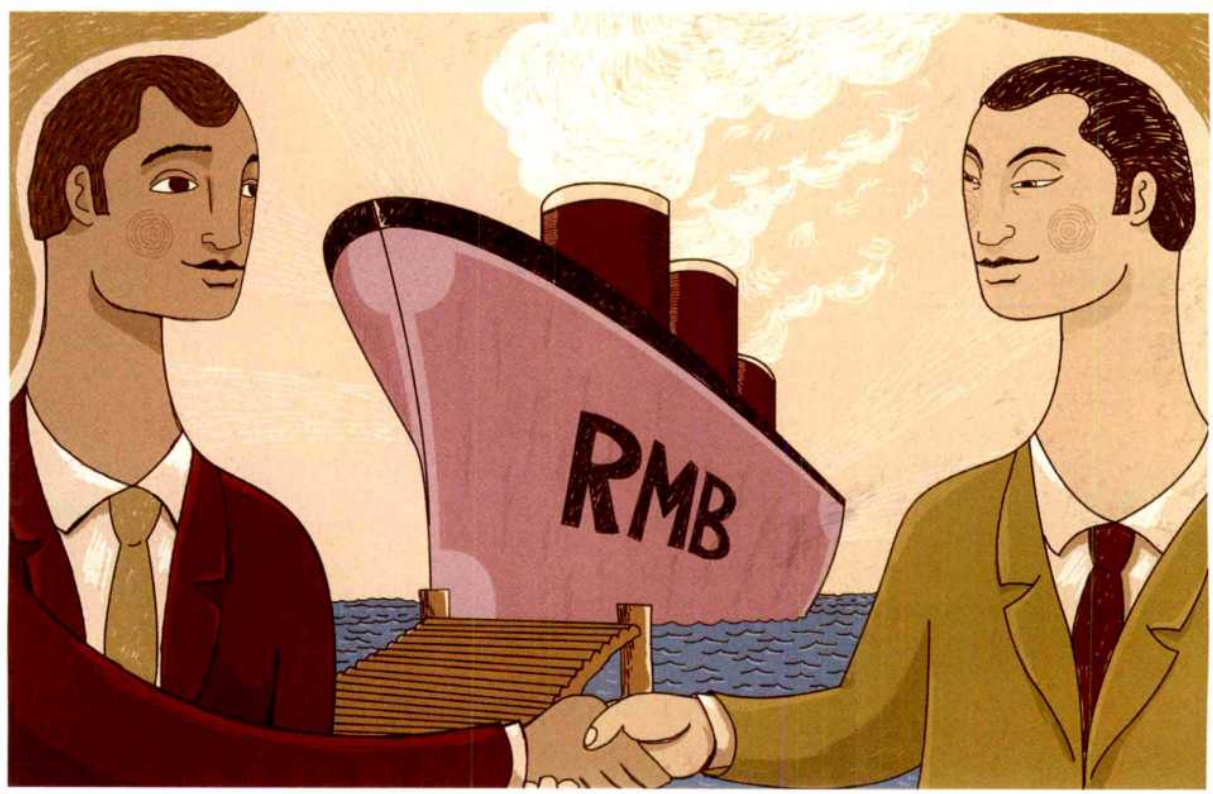
Coming Up

- The Reserve Bank of India may cut policy rates by 25 basis points on June 17. The cue comes from the continued downward trend in inflation and sluggish growth indicators.
- The government has sought comments from key ministries on the proposal to divest 10 per cent stake in Indian Oil. The share sale of the country's largest oil firm is expected to fetch the exchequer over ₹7,000 crore. The government aims to raise ₹40,000 crore through PSU stake sale in 2013/14.
- The India launch of BlackBerry Q10, the first BB10 device with a QWERTY keypad, is likely in the first week of June.



FOCUS

16 Retiring Regulators
18 Rupee's Slide
22 UPA Report Card



SANTOSH

Quick Fix

China will invest in Indian infrastructure to offset the skewed trade balance.

By **SANJIV SHANKARAN**

The trade deficit with China is 21% of India's total

When Chinese Prime Minister Li Keqiang visited India last month, most analysts expected diplomacy to dominate the agenda. Tensions between the Asian giants were high as Li's first overseas visit as premier came just weeks after a border spat between the two countries. But that did not overwhelm economic issues during Li and Prime Minister Manmohan Singh's talks, and at the end of the three-day visit, the two nations agreed that China would invest more in Indian infrastructure.

S. Jaishankar, the Ambassador to China, said both countries identified

Chinese investment in Indian infrastructure as a pragmatic short-term measure to mitigate the impact of India's massive trade deficit with China. China has been India's largest trading partner in two of the last three years. But their trade relationship is fraught with difficulties. China exports much more to India than it imports. Consequently, the trade deficit between them was $39.4 billion in 2011/12, which was 21 per cent of India's aggregate trade deficit of $183.3 billion.

Indian policymakers see the trade deficit and its link to the current account deficit (CAD) as a primary risk facing the economy today. India's CAD in the October-December quarter of 2012 was a record 6.7 per cent of gross domestic product. Apart from being concerned about the skewed trade balance, New Delhi also says that Beijing does not give its pharmaceutical and IT companies fair market access. "It's a colonial pattern of trading," says former foreign secretary Lalit Mansingh. "There's a conscious attempt to not allow our companies to expand."

India largely exports primary products such as minerals and imports manufactured products such as electrical machinery from China. According to an Export-Import Bank of India study, ores, cotton, slag and ash accounted for 32 per cent of India's exports to China in 2011. On the other hand, machinery and electrical and electronic equipment are the two largest Chinese exports to India with a combined share of 45 per cent.

Economists say denying market access is a non-tariff barrier countries use to shield domestic companies from foreign competition. According to Abhijit Das, Head of the Centre for WTO Studies, Indian Institute of Foreign Trade, non-tariff barriers are erected through policy measures by governments. For example, exports of services such as software contracts can be curtailed through registration regulations that are designed to inhibit foreign competitors. Some countries also restrict food exports on the grounds of health protection, but it is essentially a way of protecting domestic industry.

Critics say China deliberately restricts access to its pharmaceuticals market by imposing unusually tough standards. However, industry experts say it does not deny market access. According to Swati Piramal, Vice Chairperson of Piramal Enterprises, China has enhanced its regulatory standards to match those of developed countries and has tighter patent laws than India. "It's more complicated," says Piramal. "A generic in India is not a generic in China."

Li acknowledged that India's trade deficit with China was unlikely to narrow soon, but increased Chinese investment in India would help mitigate the problem. "Only a dynamic trade balance is sustainable," he said at a meeting organized by industry lobby group FICCI.

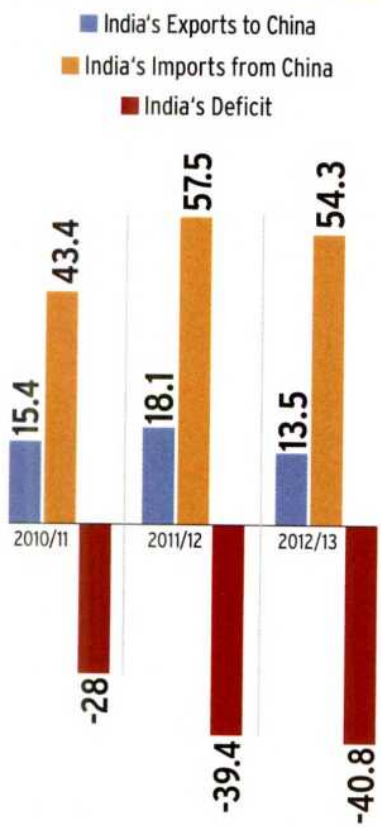
Investing in India's infrastructure is not new to China. Some of the country's largest power producers rely on China for both equipment and funding. Typically, the supply contract is backed by soft loans from Chinese banks. However, the impact of such investment on India's infrastructure has been indirect, primarily through supply of equipment for the power sector.

For example, Shanghai Electric Group Company has a contract to supply power equipment to India's Reliance Power for $10 billion. Similarly, Power Construction Corporation of China announced a $2.4-billion power project in Tamil Nadu last year.

Despite India's infrastructure featuring prominently in talks between the countries, the most intriguing aspect of Li's visit was the identity of the only company he chose to visit. Li visited software company Tata Consultancy Services's software development centre in Mumbai. Given the Chinese premier's acknowledgement of India's software prowess, the visit may be a harbinger of a gradual change in the composition of India's exports to China.

No one on the Indian side, however, expects an overnight change. But Ambassador Jaishankar says this visit has seen the best response in the last few years from the Chinese side on economic issues. Perhaps the two governments' hope of bilateral trade of $100 billion by 2015 is not as far-fetched as it initially seemed. ◆

UNEQUAL PARTNERS



All figures in $bn
Source: Commerce Ministry

Send your comments to editor.bt@intoday.com

Room at the Top

Comptroller and Auditor General Vinod Rai – who quit office on May 22 – is the first of four high-profile regulators who retire in the next 12 months. The highlights of their tenures and the challenges their successors will face:

VINOD RAI

Comptroller & Auditor General (CAG) of India

TOOK CHARGE IN
December, 2007

RETIRED IN
May 2013

HIGHLIGHTS
A number of his audits rocked the nation:

- Estimated the loss from the 2G spectrum scam at ₹1.76 lakh crore
- Estimated the total profit for beneficiaries in the coal blocks allocation scam at ₹1.86 lakh crore
- Other audits exposed the Commonwealth Games scam, the Noida Authority scam, MGNREGA irregularities

SUCCESSOR'S CHALLENGE

- Audit of AgustaWestland helicopter purchase, since the new CAG Shashi Kant Sharma, as defence secretary earlier, was among those who authorised it
- Tackling government's increasing hostility to CAG

U.K. SINHA

Chairman, Securities & Exchange Board (SEBI)

TOOK CHARGE IN
February 2011

TO RETIRE IN
February 2014

HIGHLIGHTS

- Penalised an RIL subsidiary ₹11 crore in an insider trading case
- Directed two Sahara Group companies to refund close to ₹24,000 crore to investors
- Launched Safety Net Mechanism to protect retail investors' interests in IPOs
- Tightened the takeover code

SUCCESSOR'S CHALLENGES

- To carry forward initiatives taken by Sinha, especially those to boost participation of retail investors and SMEs in the capital market
- Do something about some of the regional stock exchanges where little trading takes place

D. SUBBARAO

Governor, Reserve Bank of India (RBI)

TOOK CHARGE IN
September 2008

TO RETIRE IN
September 2013

HIGHLIGHTS

- Took charge just as the global economic crisis struck. Brought down interest rates to stimulate growth
- As inflation mounted, raised rates and thereafter stuck to them, despite the finance ministry's displeasure
- As inflation fell, began easing rates again

SUCCESSOR'S CHALLENGES

- Arresting the renewed fall of the rupee against the US dollar
- New banking licences are on the anvil. Rolling them out will pose multiple challenges
- Ensuring inflation remains at tolerably low levels

PRAMOD DEO

Chairman, Central Electricity Regulatory Authority (CERC)

TOOK CHARGE IN
June 2008

TO RETIRE IN
June 2013

HIGHLIGHTS

- Fined states for drawing more power from the national grid than they were entitled to
- Compensated Adani Power and Tata Power for losses incurred on coal imports due to changes in Indonesian laws
- Directed state regulators to play a more proactive role in power tariff revisions

SUCCESSOR'S CHALLENGES

- Find ways of enforcing the commission's orders more strictly
- Oversee 'open access' and pave the way for a free market in power

JYOTINDRA DUBEY AND ANILESH MAHAJAN

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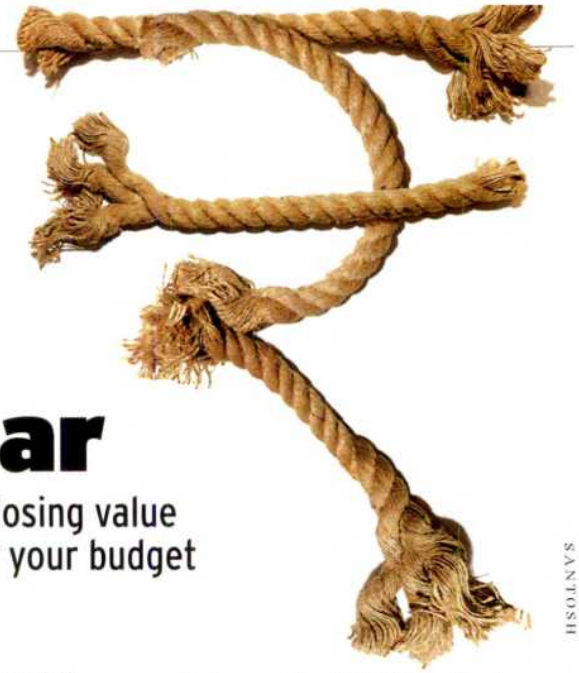
eative illustration. Based on Internal Survey of TV models available for purchase in August 2012

GIIR/LG/0019/13



SANTOSH

Wear and Tear

Why the rupee keeps losing value and what it means for your budget

By SANJIV SHANKARAN

The rupee's value against the US dollar is taking a beating again. Unlike dips in the last two years, this time the cause has more to do with global influences than domestic weaknesses.

On May 29, the rupee's value against the dollar sank to an intraday low of ₹56.37, its lowest level since the last week of July 2012. In May, the rupee depreciated about 4.7 per cent to around ₹56.17 against the dollar.

To put the current slide in perspective, in the two months ending June 27, 2012, the rupee fell 8.6 per cent against the dollar to reach ₹57.21. Over the past two years, it has depreciated about 24.6 per cent.

On the rupee's current weakness, Samiran Chakraborty, Managing Director and Regional Head of Research, Standard Chartered Bank, says: "It is more a global phenomenon than a local phenomenon."

Globally, funds have begun to flow to the US, as expectations of the country's economic performance have improved. The US dollar index – a measure of the value of the dollar against a basket of important currencies such as the euro – has been appreciating of late. On May 29, the dollar index was around 84, according to Bloomberg. Raj Majumder, Founder and CEO of Auroch Investment Manager, a wealth management firm, says a reading above 80 in the index indicates that things are looking up for the dollar.

Besides the global trend, a couple of domestic factors seem to have influenced the recent trend in the rupee-dollar exchange rate. According to Majumder, the market perception is that there has been an unusually large demand for dollars from oil marketing companies that want to finalise supply contracts to take advantage of a weak trend in crude prices. Besides, companies which have redemptions coming up on their foreign exchange borrowings have been buying dollars.

How long will the current spell of weakness continue and what is its impact on the economy?

The shift to the US by reducing exposure to other countries has not ended. "The process of people realigning their portfolio position is still on," says Chakraborty.

The impact of this realignment has been strong enough to counter healthy inflows in May from foreign institutional investors. FIIs bought $5.1 billion worth of Indian securities during that month.

The current spell is likely to have an impact first on inflation and then on monetary policy. "That seems to be the real and present danger," says Chakraborty.

India's largest import is crude – it imports oil worth close to $150 billion annually. A weaker rupee makes this costlier and pushes up the inflation rate. In April, inflation as measured by the Wholesale Price Index was 4.89 per cent, below the Reserve Bank of India's target of five per cent. Chakraborty's fear is that the current weakness in the rupee could push the rate over five per cent and force the central bank to revisit its current policy of lowering interest rates. If that happens, don't expect the monthly instalments on your home loan to fall soon. ◆

WILTING IN MAY

The rupee has begun to slide against the dollar again

Source: RBI

N TODAY'S DIFFICULT TIMES, EVERY RUPEE SAVED IS RUPEE EARNED.

Actual pictures shot on location

SEA VIEW FROM OFFICES

PLUSH OFFICES

TRIPLE HEIGHT LOBBIES

CUSTOMISABLE SPACES

AMPLE PARKING

ALL GLASS FACADE

HI-TECH SECURITY INFRASTRUCTURE

PEN AREAS & SKY GARDENS

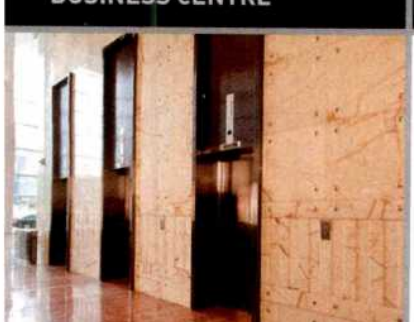
ESCALATORS CONNECTING TO STATION

MULTIPLE FOOD COURTS

BUSINESS CENTRE

FITNESS & HEALTH CLUB

CAFES & FINE DINING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A FINE FONEPAD AND A CUTTING-EDGE TV

Top Draw

The latest seven-inch tablet which can also make phone calls, the Asus Fonepad runs the Android Jelly Bean and is powered by Intel's Atom Z2420 1.2GHz processor. It is easy to hold and thin enough to make browsing easy. The 800x1216p display is good, but not stunning. The sound quality is good too. We tried a few resource intensive games and noticed no lag at all. Tabbed browsing also worked fine. It is awkward holding a tablet to one's ear, but the Fonepad does not prove too awkward. The front and rear cameras are just about okay, but the battery is really top draw.

Performance, Battery

Screen resolution, Camera

Asus Fonepad **Price:** ₹15,999

Samsung UA46F7500BJ **Price:** ₹1,35,000

Great Leap Forward

Last year's Samsung Smart TV models were innovative, but a bit gimmicky. This year, with its new range, Samsung seems to be getting some of the rough edges smoothened. The 46-inch Series7 F7500 took barely 10 minutes to set up, thanks to the tutorial that comes with the set. The Smart Touch Control remote has a touch pad and needs some getting used to. The remote also responds to verbal commands to adjust volume, and so on. This works much better than on previous models. This set has 'motion control' too – it obeys commands conveyed through arm gestures – but such gesturing takes away the joy of leaning back and simply watching. However, the standout feature is the picture quality and the 3D, which seems to have improved enormously from past versions. Much of this improved viewing is due to the new lightweight 3D active glasses that come with the set. There is also SmartHub which lets you add apps, provided you have a reasonably fast (1Mbps or more) broadband connection linked to the screen. You can even change the software and the quad-core processor – using the slot for the evolution kit in the rear – later if you want to. That is cutting edge for you.

NANDAGOPAL RAJAN

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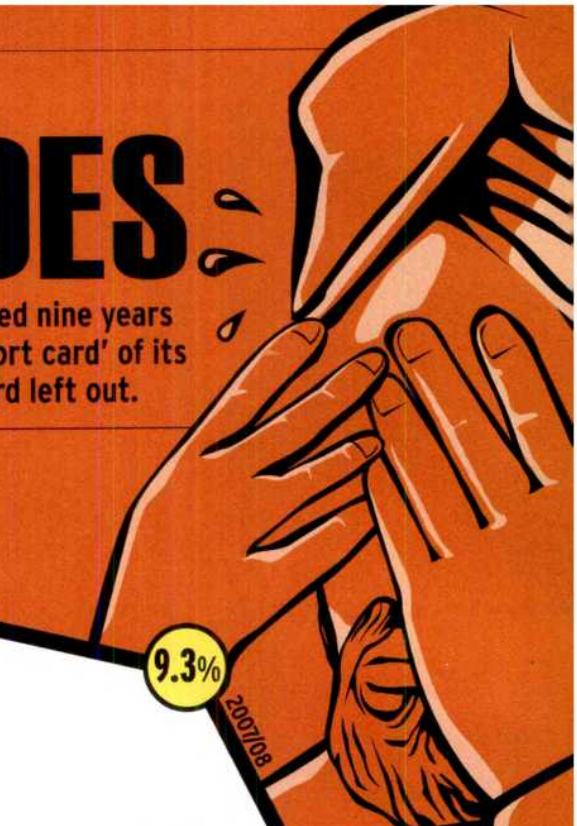
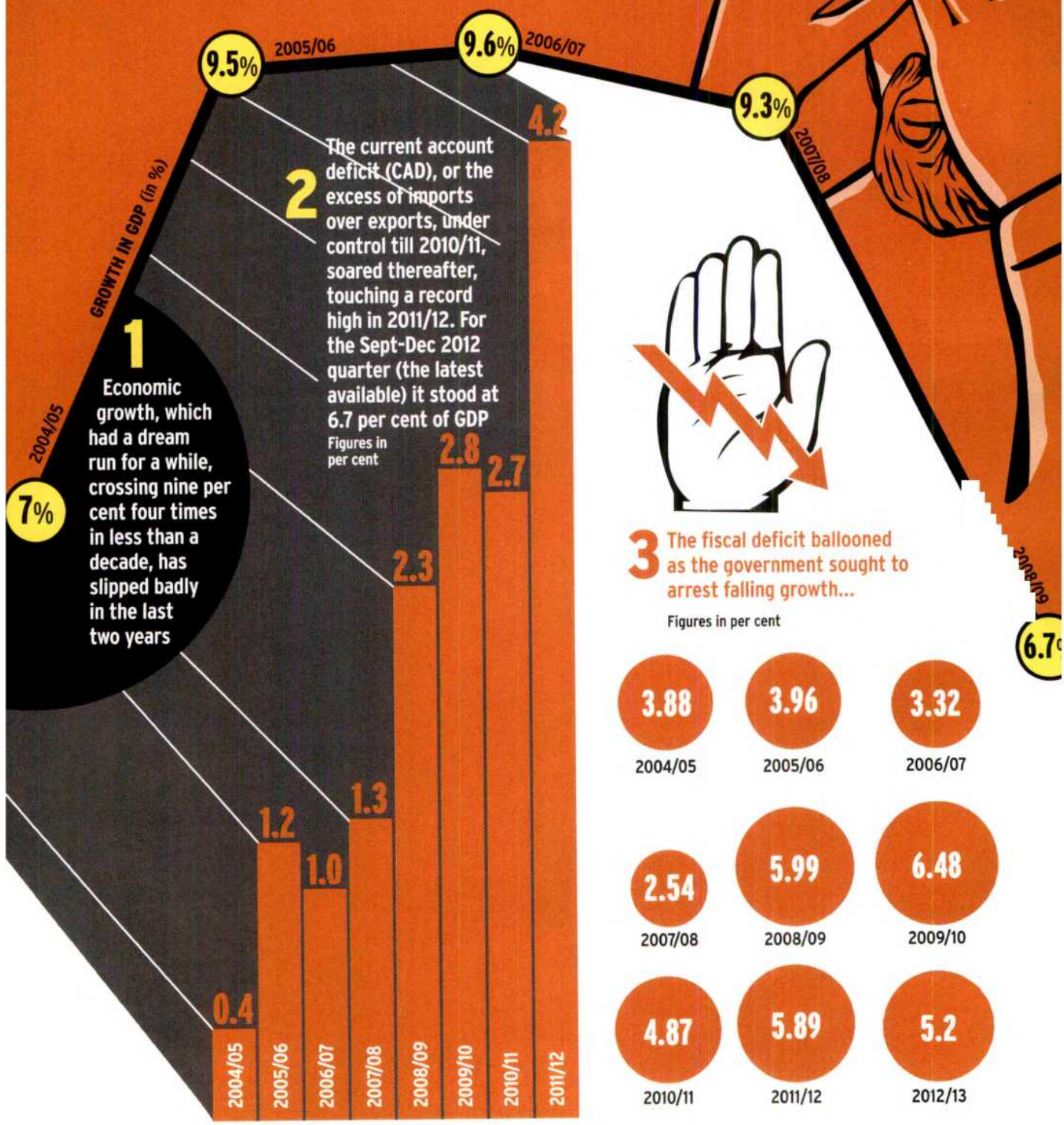
POOR GRADES

On May 22, the United Progressive Alliance completed nine years in office. It marked the occasion by releasing a 'report card' of its performance. Here are some numbers the report card left out.

Graphic by **Santosh Kushwaha** • Research by **Sanjiv Shankaran**





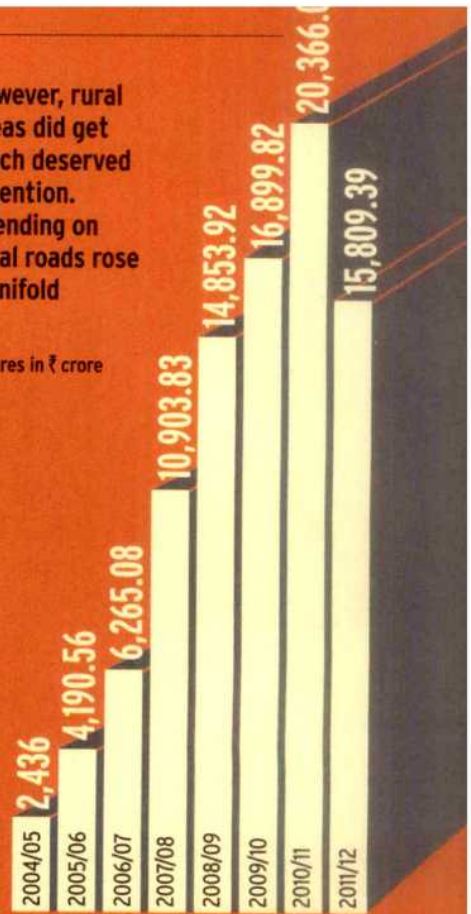
4 ...leading to high inflation for some years, which the Reserve Bank of India struggled to contain by hardening interest rates

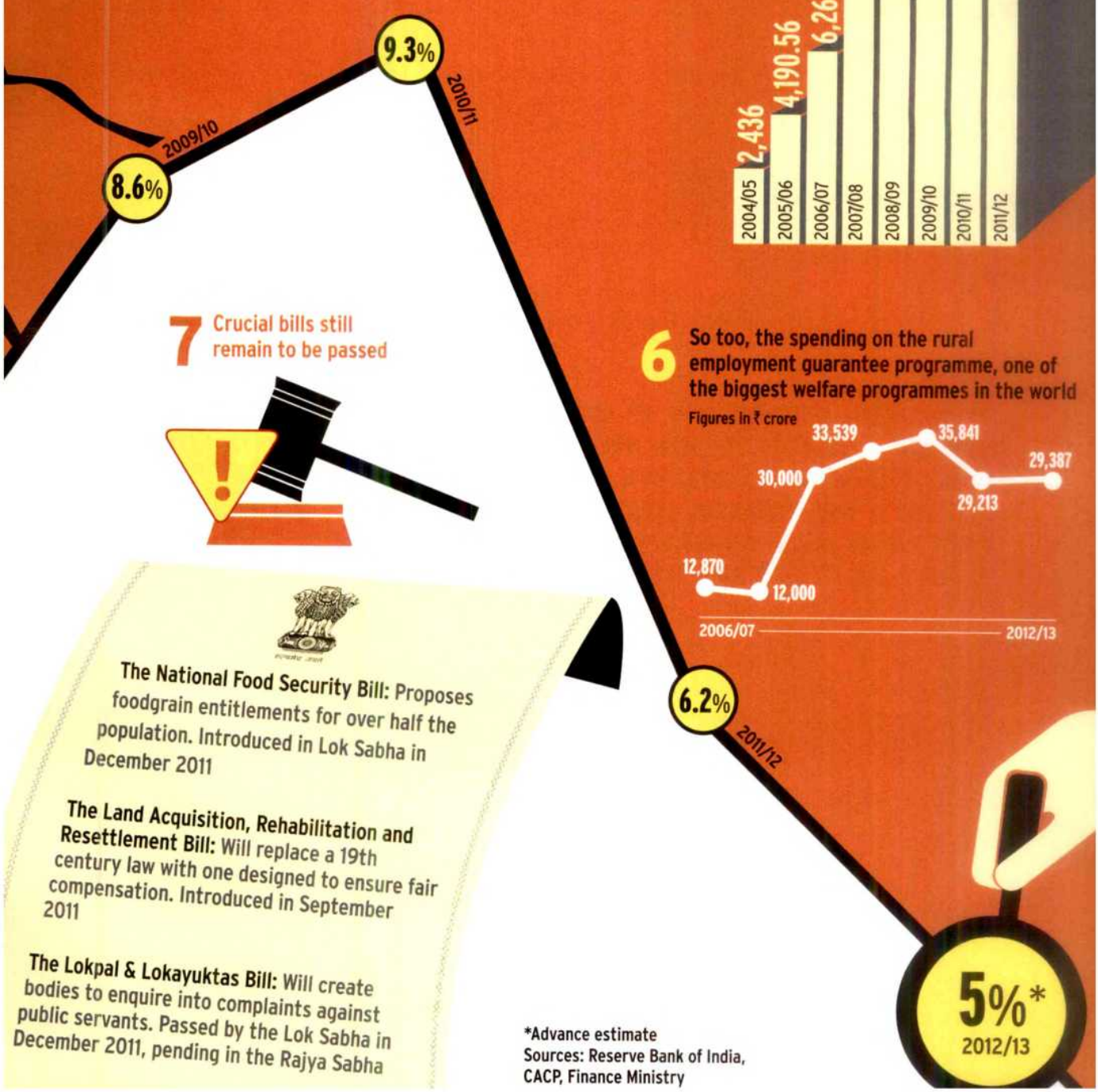
Figures in per cent

2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
6.5	4.4	6.6	4.7	8.1	3.8	9.6	8.9

5 However, rural areas did get much deserved attention. Spending on rural roads rose manifold

Figures in ₹ crore





7 Crucial bills still remain to be passed

The National Food Security Bill: Proposes foodgrain entitlements for over half the population. Introduced in Lok Sabha in December 2011

The Land Acquisition, Rehabilitation and Resettlement Bill: Will replace a 19th century law with one designed to ensure fair compensation. Introduced in September 2011

The Lokpal & Lokayuktas Bill: Will create bodies to enquire into complaints against public servants. Passed by the Lok Sabha in December 2011, pending in the Rajya Sabha

6 So too, the spending on the rural employment guarantee programme, one of the biggest welfare programmes in the world

Figures in ₹ crore

*Advance estimate
Sources: Reserve Bank of India, CACP, Finance Ministry

ASHOKA MODY

Misplaced Optimism

Economic projections have vastly underestimated the severity of the Eurozone crisis, as well as its impact on the rest of the world.

In April 2010, the International Monetary Fund's World Economic Outlook offered an optimistic assessment of the global economy, describing a multi-speed recovery strong enough to support roughly 4.5 per cent annual gross domestic product (GDP) growth for the foreseeable future – a higher pace than during the bubble years of 2000-2007. But, since then, the IMF has steadily pared its economic projections. Indeed, this year's expected GDP growth rate of 3.3 per cent – which was revised downward in the most recent World Economic Outlook (WEO) – will probably not be met.

THE EUROZONE IS OPERATING UNDER THE PRETENCE THAT PUBLIC AND PRIVATE DEBTS WILL, AT SOME POINT, BE REPAID, ALTHOUGH THE DISTRESS NOW IS GREATER THAN IT WAS AT THE START OF THE CRISIS

Persistent optimism reflects a serious misdiagnosis of the global economy's troubles. Most notably, economic projections have vastly underestimated the severity of the Eurozone crisis, as well as its impact on the rest of the world. And recovery prospects continue to depend on the emerging economies, even as they experience a sharp slowdown. The WEO's prediction of a strengthening recovery this year continues the misdiagnosis.

European Central Bank President Mario Draghi's announcement last summer that the European Central Bank would do "whatever it takes" to preserve the euro reassured financial markets. But, as pressure from financial markets has eased, so has European leaders' incentive to address problems with the Eurozone's underlying economic and political dynamics. Easy ECB liquidity is now sustaining a vast swath of Europe's banking system.

The Eurozone is operating under the pretence that public and private debts will, at some point, be repaid, although, in many countries, the distress now is greater than it was at the start of the crisis almost five years ago. As a result, banks, borrowers, and governments are dragging each other into a vicious downward spiral. Politicians have exacerbated the situation by doubling down on fiscal austerity, which has undermined GDP growth while failing to shrink government debt/GDP ratios. And no decisive policy action aimed at healing private balance sheets appears imminent.

Moreover, Europe's problems are no longer its own. Europe's extensive regional and global trade networks mean that its internal problems are impeding world trade and, in turn, global economic growth. In 2012, world trade expanded by only 2.5 per cent, while global GDP grew at a disappointing 3.2 per cent rate.

Periods in which trade grows at a slower pace than output are rare, and reflect severe strain on the global economy's health. While the trauma is no longer acute, as it was in 2009, wounds remain – and they are breeding new pathologies. Unfortunately, the damage is occurring quietly, enabling political interests to overshadow any sense of urgency about the

SANTOSH

need to redress the global economy's intensifying problems.

Against this bleak background, it is easy to celebrate the success of emerging markets. After all, emerging and developing economies are growing much faster than the advanced countries. But even the world's most dynamic emerging markets – including China, Brazil, and India – are experiencing a sharp deceleration that cannot be ignored.

Consider India, where growth is now running at an annualized rate of 4.5 per cent, down from 7.7 per cent annual growth in 2011. To be sure, the IMF projects that India's economy will rebound later in 2013, but the basis for this optimism is unclear, given that all indicators so far suggest another dismal year.

The emerging economies' supposed resilience, which has buoyed economic forecasts in recent years, needs to be reassessed. Like the advanced economies, emerging economies experienced a boom in 2000-2007. But, unlike the advanced economies, they maintained high GDP growth rates and relative stability even at the height of the crisis. This was viewed as powerful evidence of their new economic might. In fact, it was largely a result of massive fiscal stimulus and credit expansion.

Indeed, as the effects of stimulus programmes wear off, new weaknesses are emerging, such as persistent inflation in India and credit misallocation in China. Given this, the notion that emerging economies will recapture the growth levels of the bubble years seems farfetched.

Economic forecasts rest on the assumption that economies ultimately heal themselves. But economies' powerful self-healing capabilities work slowly. More problematic, a misdiagnosis can lead to treatments that impair the healing process. Overly optimistic economic projections based on mistaken assessments of the global economy's ailments thus threaten recovery prospects – with potentially far-reaching consequences.

In Europe, the banks' wounds must be closed – weak banks must be shut down or merged with stronger banks – before recovery can begin. This will require an extensive swap of private debts for equity. For the global economy, the malaise reflected in anaemic trade growth calls for coordinated fiscal stimulus by the world's major economies. Otherwise, the risk of another global recession will continue to rise. ◆

EVEN THE WORLD'S MOST DYNAMIC EMERGING MARKETS – INCLUDING CHINA, BRAZIL AND INDIA – ARE EXPERIENCING A SHARP DECELERATION THAT CANNOT BE IGNORED

Ashoka Mody, a former mission chief for Germany and Ireland at the International Monetary Fund, is currently Visiting Professor of International Economic Policy at the Woodrow Wilson School of Public and International Affairs, Princeton University.
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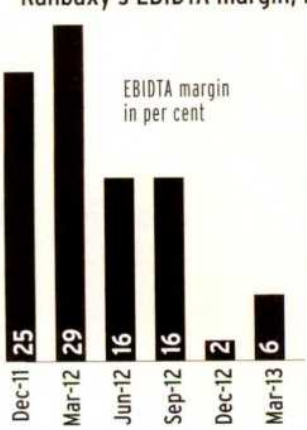
In the hot seat: Arun Sawhney, Managing Director and CEO of Ranbaxy Laboratories

ADITYA KAPOOR/www.indiatodayimages.com

Bumpy Ride

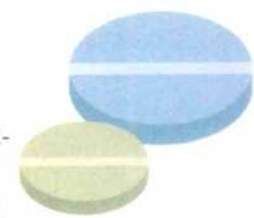
Ranbaxy's EBIDTA margin, net sales and share price have fallen over the past few quarters



Net sales in ₹ crore, Source: Company results

UNCERTAINTY PRINCIPLE

A disgraced Ranbaxy has a long and expensive journey ahead before it regains the trust of global and Indian customers. By E. KUMAR SHARMA and CHAITANYA KALBAG



Two inspectors working for the US Food and Drug Administration (FDA), on a trip to a Ranbaxy Laboratories factory late in January 2008, were stunned by what they saw. Workers at the plant were moving freely between blocks making antibiotics and other medicines. The FDA lays down stringent norms for operations at manufacturing facilities that export drugs to the United States, stipulating everything from complete isolation of different parts of a factory and deployment of personnel to dedicated air-conditioning, air filtration for bacteria and even down to how the clothes worn by personnel ought to be cleaned.

The idea, says J.C. Saigal, a 25-year industry veteran who was responsible for quality control at Piramal Healthcare, is that every plant "should do exactly what is written in the guidelines, and (record) what is being done in the plant". But what the FDA inspectors saw on their two-week visit to Ranbaxy's Dewas plant in western Madhya Pradesh was a flagrant violation of the FDA's so-called current good manufacturing practices (cGMP). The violations were enough for the FDA, in September 2008, to ban imports of over 30 generic drugs manufactured at Dewas and another Ranbaxy plant at Paonta Sahib in Himachal Pradesh where, too, the US regulator had found serious problems.

The FDA crackdown, which followed years of warnings and investigations and culminated with charges that Ranbaxy had submitted "untrue statements of material fact" relating to storage and stability testing, coincided with the Indian company's takeover by Japan's third-biggest drug maker Daiichi Sankyo. That sale, especially given Ranbaxy's troubles with the FDA, was greeted by surprise and consternation.

$500 mn
The amount Ranbaxy agreed to pay to settle felony charges in the US

The denouement came on May 13, when Ranbaxy, India's second-largest drug maker by sales, settled felony charges over falsification of data filings, manufacturing violations, and other false statements with the US Department of Justice (DoJ), agreeing to pay $500 million, or ₹2,800 crore (see order here: *http://bit.ly/DoJrnbxy*). The US is the biggest drugs market in the world and Ranbaxy, now owned 63.9 per cent by Daiichi Sankyo, makes 40 per cent of its revenues selling drugs there. Clearly, it wanted to put its dark past behind it. On May 13, Arun Sawhney, Ranbaxy's CEO and Managing Director, made it clear in a statement to the Bombay Stock Exchange the company wanted to move on: "...while we are disappointed by the conduct of the past that led to this investigation, we strongly believe that settling this matter now is in the best interest of all of Ranbaxy's stakeholders." (See Sawhney's interview on page 30).

"Ranbaxy is a different company today," added Sawhney, who joined the company just before Daiichi's takeover and was named as head of its global pharmaceutical business in January 2010. Different from when the company was controlled and run by the Singh brothers, Malvinder Mohan Singh and Shivinder Mohan Singh, when critics allege, cooking

For previous stories on Ranbaxy, go to
www.businesstoday.in/archives-jun2313

INTERVIEW: Dinesh S. Thakur

"FDA HAS LEARNT FROM THE RANBAXY CASE"

Dinesh S. Thakur, who blew the whistle on Ranbaxy's wrongdoings, spoke over the phone from the US with Chaitanya Kalbag and E. Kumar Sharma. Edited excerpts:

Do you believe Ranbaxy's drugs have in any way caused harm to patients?

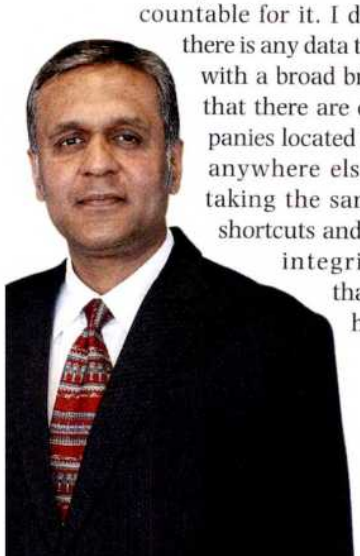
You are asking me to conclusively answer something that I don't have data for... In countries like India, South Africa and Brazil where systems are not as robust as they are in this country (the US), it is difficult to collect all that data. So, one cannot conclusively say that there was any direct harm with the quality of medication that Ranbaxy dispensed.

Is there something wrong in the way US FDA functions?

If you look at the last six to eight years, the FDA has fundamentally changed in response to drug supply becoming global... the FDA is responding to what has happened and has learnt from this case.

Will this case hurt the reputation of all Indian drug makers?

I think this was one particular company which was bent upon wrongdoing and it was held accountable for it. I don't think there is any data to paint this with a broad brush to say that there are other companies located in India or anywhere else that are taking the same kind of shortcuts and have data integrity issues that Ranbaxy had.



You came in from Bristol-Myers Squibb. How would you compare the two companies?

The difference that I found was that the Indian organisations are lot more hierarchical and the general norm is that your manager knows what is right and you essentially follow that line of thinking. That was the biggest learning for me.

So, when you first blew the whistle at Ranbaxy what was the initial response?

I kept my manager Mr (Rajinder) Kumar apprised of what I was finding. He took it upon himself to go and talk to the board and tell them that if they gave him the authority he will fix it. Unfortunately, that did not happen and as an ethical person and somebody that I look up to, he left. After he left, I tried to essentially bring this investigation to a conclusion. But my tenure was also made untenable by the company, so I left. It was not a pleasant experience clearly finding out that the company you work for was making medicines that could make people potentially sick.

How did your peers react?

It has been eight years now... it is hard for me to go back and recount how it actually happened. The thing I can tell you was that this was not a hidden secret.

Is this happening in other Indian companies too?

I have no way of knowing that. I only worked for one Indian pharma company and that was enough for me.

For a more detailed interview go to
www.businesstoday.in/ranbaxy-thakur

up data was part of its culture.

Dinesh S. Thakur, formerly director and global head for research information and portfolio management at Ranbaxy, gave glimpses of this in an interview to *Business Today*. What began as a task in 2004 given by Rajinder Kumar, then Ranbaxy's head of research and development, to go through the company's portfolio of medicines, markets and production lines led him to uncomfortable findings. "It was not a pleasant experience clearly finding out that the company you work for was making medicines that could make people potentially sick," Thakur said in a phone interview from the US. With his job made "untenable" within the company, he had to, like his boss Kumar, leave the company in 2005. He then opted to become a whistleblower in the DoJ case leading to the settlement announced May 13. Thakur will get about $48.6 million from the settlement amount.

Less than 10 days from that announcement, on May 22, Daiichi Sankyo made it clear it thought it had been hoodwinked. It said it believed "that certain former shareholders of Ranbaxy concealed and misrepresented critical information concerning the US DoJ and FDA investigations," adding it is "pursuing available legal remedies". The very next day, the Singh brothers, who sold their 30.91 per cent stake for some $2 billion, responded saying Daiichi Sankyo was in the loop all along. "Even between the signing and the time the deal (giving Daiichi majority stake) got closed, the FDA raised issues. They knew about it. They knew everything that was

The Singh brothers sold their 30.91 per cent stake to Daiichi Sankyo in 2008 for

$2 bn

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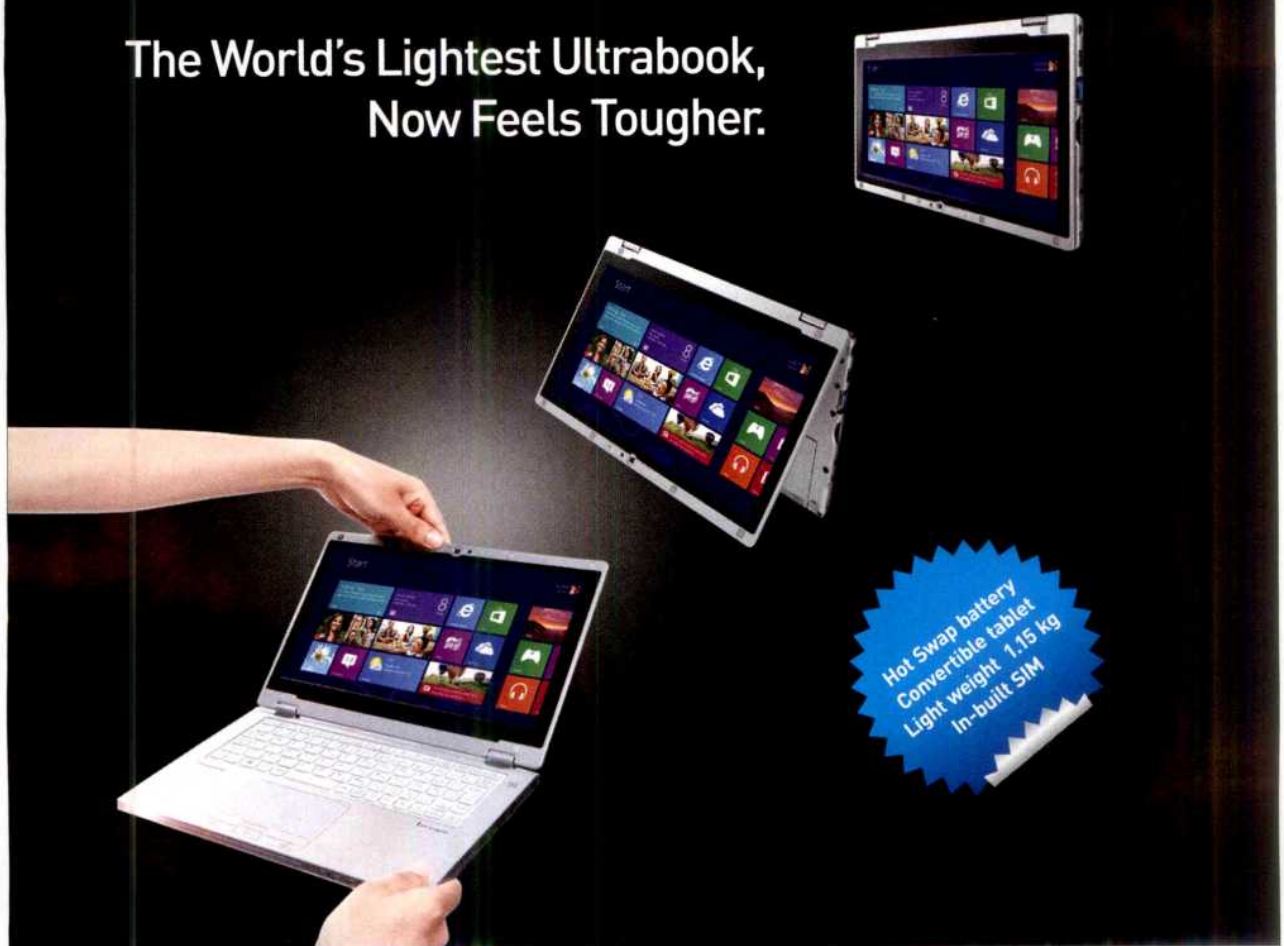

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INTERVIEW: Malvinder Singh

"RANBAXY IS NOT A LEMON"

In an interview with Chaitanya Kalbag, Malvinder Singh, Executive Chairman, Fortis Healthcare, rebuts Daiichi Sankyo's charges that "certain former shareholders" concealed critical information concerning US investigations. Edited excerpts:

On Daiichi's allegations:
There were some FDA issues and they were in all public domain. They (Daiichi Sankyo) came, they discussed it, they went to the plant, they did all of that. We signed the deal.

On how Daiichi Sankyo has managed Ranbaxy:
They have mismanaged it. They have not been able to deal with it. And now they are trying to put a blame for things of the past.

On Fortune magazine story (*http://bit.ly/frtnrnbxy*):
Fortune's is a pretty sensational story...The kind of malignment, or whatever is the right word, the kind of perception getting created that the data was falsified is not correct.

On whether the Singh brothers sold Daiichi a lemon:
It (Ranbaxy) is not a lemon, it is a fantastic company. I can't question why they are doing it.

For a more detailed interview go to
www.businesstoday.in/ranbaxy-malvinder

FDA-linked and DoJ-linked," a combative Malvinder told BT in an interview. Malvinder left Ranbaxy in May 2009, less than a year after the Daiichi Sankyo buyout and his successor, Atul Sobti, quit in August 2010 citing differences with the Japanese owners.

Not Just the DoJ

Analysts do not see this dispute having any impact on the company as it is more of an issue between Daiichi and the Singhs. What they are more worried about is the decision of the Indian drugs regulator to examine all the dossiers and drug applications on the basis of which approvals had been granted to Ranbaxy in the past. Says Drugs Controller General of India G.N. Singh, "When the issue has been flagged, as a regulator it is our duty to see that whatever medicines have been produced here are of assured quality." He did not specify by when the review will be complete.

The findings of the review, depending on what they are, could have serious implications not just for India but for regulators across all the markets outside of the US. Going by last year's financials and despite addition to revenues from some one-time market exclusivity sales, nearly 60 per cent of Ranbaxy's total sales are in non-US markets: with the bulk of it spread over Europe (19 per cent), India (18 per cent) and Africa (eight per cent). "This development holds significance on two accounts. One, it puts the Indian regulator in the spotlight as it will showcase its credibility and its sternness in taking actions. For Ranbaxy, it holds significance as the findings will be closely watched by its non-US regulators, which the company now needs to satisfy," says Kunal Mishra, Associate, institutional equity research, SBICAP Securities.

This worry is reflected on shares of Ranbaxy, which have shed more than 13 per cent since May 13 to around ₹380. The May 13 announcement itself didn't have much of an impact on the stock since the $500 million charges had been factored in by the markets since December 2011 when Ranbaxy signed a consent decree with the FDA and had announced a provision of $500 million towards potential settlement costs with DoJ.

The other component is the involvement of the FDA. The task of the FDA is to see that the product is of good standard and quality and therefore grant approvals to a company to export the products from say India (in this case) to the US. It is here that some of Ranbaxy's cGMP issues still remain. Ranbaxy has still to get its Paonta Sahib and Dewas units

"Integrity is vital in the health-care business where we are saving lives"

Swati A. Piramal,
Vice Chairperson,
Piramal Enterprises

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INTERVIEW: Arun Sawhney

"RANBAXY HAS VERY HIGH CREDIBILITY EVEN TODAY"

Arun Sawhney, MD and CEO, Ranbaxy, defended the company in an interview with Chaitanya Kalbag. Edited excerpts:

On reputational damage:
Ranbaxy has very high credibility even today. We'll need to continue demonstrating and building faith again with any institution that has been influenced by what has appeared in the media... The FDA has gone on record in 2008 stating that patients must not discontinue therapy with Ranbaxy drugs.

On the pieces of glass found in a Ranbaxy medicine in the US:
There were no pieces of glass. There was glass – glass that was a particle like a grain of sand... the FDA has said there was no danger to patients. But we did a voluntary recall of around 40 batches of Atorvastatin.

On quality control in Ranbaxy:
Ranbaxy has led the way for the Indian pharma industry to do business globally... [Recalls] are a part of the business. There is no responsible company that doesn't have a recall.

On Ranbaxy's financial performance since the takeover:
I think it's been good. We are expanding in India, and elsewhere in the world.

back on track for inspection and approval by the FDA so that it can resume supplies to the US from these facilities. It is currently working on this and has engaged consultants for this, as per the consent decree it signed with the FDA.

Until all issues with the FDA are resolved, "it will be difficult to see Ranbaxy making the same kind of margins and be as profitable as its peers," says Aditya Khemka, Associate at Nomura Securities. "If you see their EBITDA margins they have it now down to single digits. They did about seven to eight per cent in the latest quarter, which is lower than the peers doing 20 to 25 per cent EBITDA margins," says Khemka. EBITDA, short for earnings before interest, taxes, depreciation and amortisation, is a measure of operating profit.

What has not helped is the absence of Ranbaxy's generic version of Lipitor, a cholesterol drug of Pfizer. In November 2011, just after Lipitor went off patent, Ranbaxy launched the generic version in the US market only to recall it a year later after glass particles were found in its tablets. Production and sales of the drug have resumed late in March this year.

Even if the pending issues with the FDA are resolved, the company – and indeed the broader Indian drug industry – has a bigger problem of convincing consumers and the medical fraternity that it lives up to its corporate tagline: 'Trusted Medicines. Healthier Lives'. "The unfortunate impression it has created is that non-compliance is pandemic in the Indian drug industry," Kiran Mazumdar-Shaw, Chairman and Managing Director at biotech drug maker Biocon says of Ranbaxy's problems (see her column on page 38). Already, Jaslok Hospital in Mumbai has issued an advisory asking doctors to avoid prescribing Ranbaxy drugs.

Ranbaxy says it has invested over $300 million in recent years to install new technologies at its factories, old and new, and that it has doubled the number of people in the quality function to 2,000 from staffing levels in 2007 (total staff today is 14,600). The global quality head, Dale Adkisson, reports to CEO Sawhney and is a member of the company's executive committee. "Accidents can happen but what processes do you have to catch it early? That is the best distinction to make between the old Ranbaxy and the new Ranbaxy," says Rajiv Gulati, President, Global Pharmaceuticals Business.

Still, the journey ahead for Ranbaxy promises to be rough and expensive. "Until and unless Ranbaxy engages directly with its stakeholders, customers and doctors, it will take a while for the company to regain its reputation," says Y.L.R. Moorthi, professor for marketing at the Indian Institute of Management, Bangalore. "What is important to remember is that it is a competitive market out there and since Ranbaxy is not a monopoly in some of these markets it also runs the risk of losing some of its market to competitors."

Ranbaxy's mistakes, it seems, will hurt it for many years to come. ◆

ADDITIONAL REPORTING BY
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Ranbaxy has doubled the staff in its quality function to

2,000

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BBDO INDIA

PROJECT REVITAL

India's drug regulator is getting a makeover but better enforcement and safer medicines are yet a chimera. By E. KUMAR SHARMA

India's pharmaceutical industry suffered twin blows recently when Ranbaxy Laboratories and Wockhardt, two of the country's biggest drug makers, came under fire from US authorities. While Ranbaxy on May 13 admitted to fudging data, Wockhardt said on May 24 the US drug regulator had banned imports of medicines from one of its factories near Aurangabad in Maharashtra.

The incidents raise some pertinent questions: is everything in order in the Indian pharmaceutical industry? Are drug makers maintaining quality standards? And what are Indian authorities doing to ensure the medicines we consume are safe?

"We need to tighten our domestic laws and have a quality culture so short cuts are avoided and there is proper documentation," says Kewal Handa, a former managing director at Pfizer India who now runs healthcare advisory firm Salus Lifecare. "One never hears of such stringent penalties in India," he adds, referring to the $500 million Ranbaxy agreed to pay to settle cases in the US.

Ranjit Shahani, Vice Chairman and Managing Director at Novartis India, agrees the government must come down heavily on companies that do not follow regulations. "The Indian government clearly has to allocate significant resources speedily to controlling quality. Incremental change will not make any difference," says Shahani, who is also President of the Organisation of Pharmaceutical Producers of India, a group of global drug makers.

"By 2017, you will see a totally different regulatory regime where we have a more system-oriented and science-based evaluation"

G.N. Singh, Drug Controller General of India

The number of drug plants in India certified by the World Health Organisation is

1,300

Such incidents "tarnish India's image", says Kiran Karnik, former president of the National Association of Software and Services Companies. Karnik has been tracking and writing on the subject of public health, among other areas, after his stint at NASSCOM.

The Indian drug landscape comprises two worlds. One world is relatively safe where companies such as Ranbaxy and Wockhardt, despite their weaknesses, meet stringent US and European regulations. According to the Drug Controller General of India (DCGI), there are 169 plants in the country approved by the US Food and Drug Administration (FDA). Besides, 160 facilities are approved by European regulators and about 1,300 are certified by the World Health Organisation. The other world is a mix of players of different sizes with many of them small and escaping strict monitoring because regulatory agencies are under-staffed and under-equipped. Overall, the DCGI estimates there are about 8,000 manufacturing units across the country. Industry estimates put the number as high as 20,000 units.

A close look at the Indian pharmaceutical industry shows a complicated regulatory structure and a web of entities at the central and state levels tasked with monitoring the sector. Drug companies come under the purview of the chemicals and fertiliser ministry. The Central Drug Standards Control Organisation (CDSCO), the top industry regulator (see *Between Many Stools*) headed by the DCGI, comes under the health ministry. There is a separate agency for monitoring food products, the Food Safety and Standards Authority of India. In contrast, in the US, almost

The number of Indian plants approved by the US FDA is

169

everything that goes into the human body is regulated by the FDA.

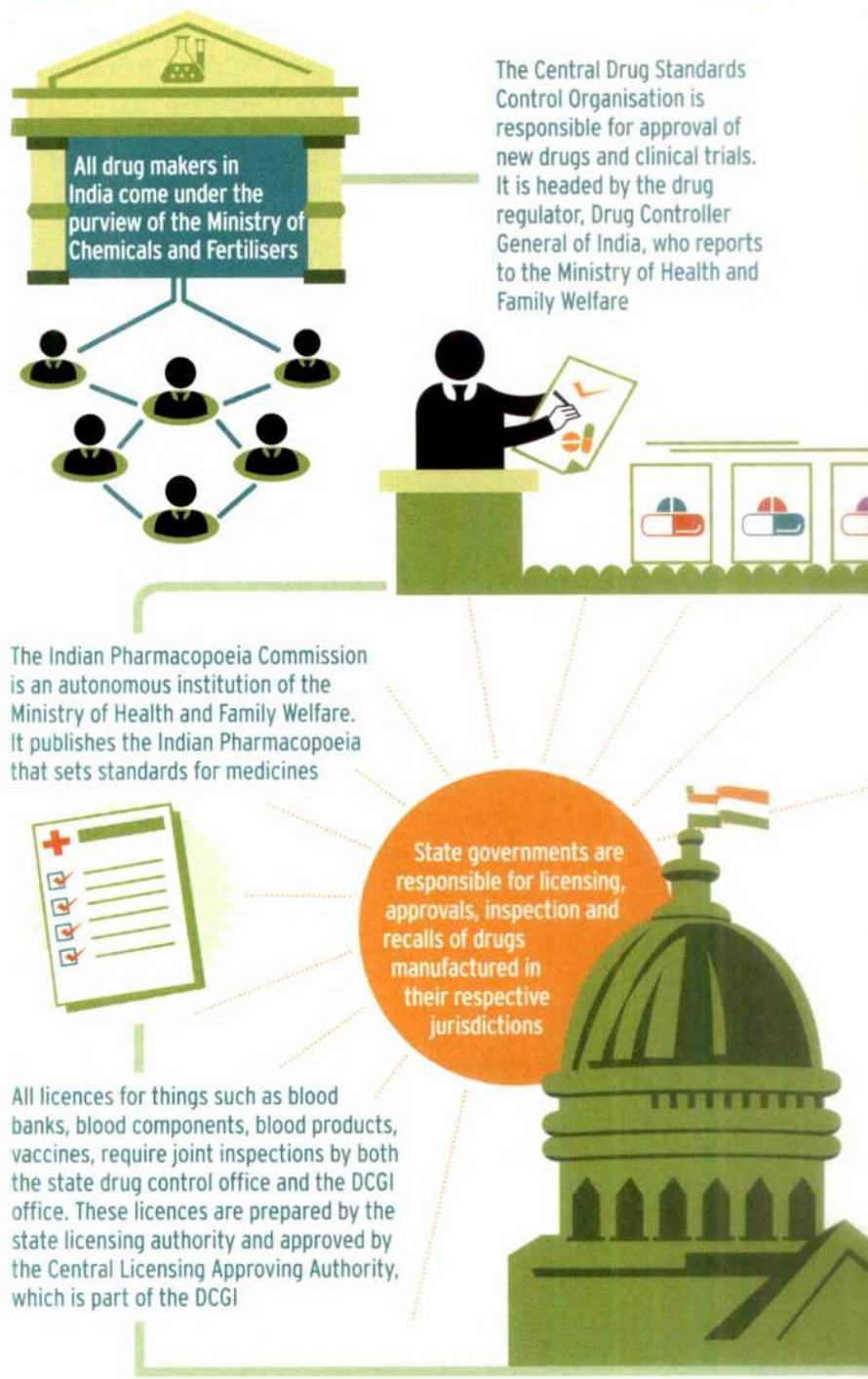
In May 2012, a parliamentary standing committee report on the functioning of the Central Drugs Standard Control Organisation (CDSCO) pointed out that it was facing a severe staff shortage. It noted that, as of October 2011, only 124 of 327 sanctioned posts were occupied. The organisation's headquarters was staffed by four deputy drug controllers and five assistant drug controllers. These nine officers together handle 20,000 applications, attend more than 200 meetings, and respond to 700 parliament questions and about 150 court cases annually.

That has changed in the past year, says DCGI G.N. Singh. "It is not nine officers now but 200," he told *Business Today*. Singh said a total of ₹3,500 crore would be spent on expanding the regulatory agencies in the five years to 2017. Of this, ₹1,500 crore has been earmarked for strengthening the central regulator and a similar amount for state-level agencies. "By 2017, you will see a totally different regulatory regime where we have a more system-oriented and science-based evaluation," he adds.

According to last year's parliamentary report, the main problems are inadequate infrastructure, shortage of drug inspectors and lack of accurate data. The panel said a 2003 report by a group led by R.A. Mashelkar estimated a requirement of more than 3,200 drug inspectors.

BETWEEN MANY STOOLS

A multitude of regulators at the Centre and the states adds to the mess in Indian pharma



MEETING FDA STANDARDS

Piramal Enterprises's bulk drugs unit at Digwal village, about 100 km from Hyderabad, has had four US FDA inspections in the past decade. The company claims it has never had any adverse comments. *Business Today* visited the plant to see how the company ensures it meets FDA standards.

The company maintains log books in the quality control laboratory where samples of the material produced are analysed before dispatch. In the documents section, there is a constant check on temperature as samples from each batch of production are stored there.

In the raw material warehouse, the focus is on labelling and ensuring clear identification of incompatible and hazardous raw material. During FDA inspections, the bulk drugs units are usually asked to show a complete manufacturing step conforming to the required quality systems. In the finished product area, the focus is on the particle size of ingredients based on required dosage and customer needs.

The panel said there were only 846 drugs inspectors against 1,349 sanctioned posts in states. Singh says the number of drug inspectors has now risen to about 1,200 and will cross 3,000 by 2017.

Singh denies the staff shortage has hampered regulatory work. "We are also good now and that is why the share of substandard drugs being sold in the Indian market is down from 10 per cent in 2002 to between four and 4.5 per cent today."

Industry executives disagree. "The share of spurious drugs being sold in India may be over 20 per cent in India," says Tobby Simon, founder and President, Synergia Foundation, a Bangalore-based applied research think tank. He adds the WHO estimate of the value of counterfeit drugs globally would be about $140 billion this year and could touch over $200 billion by 2020.

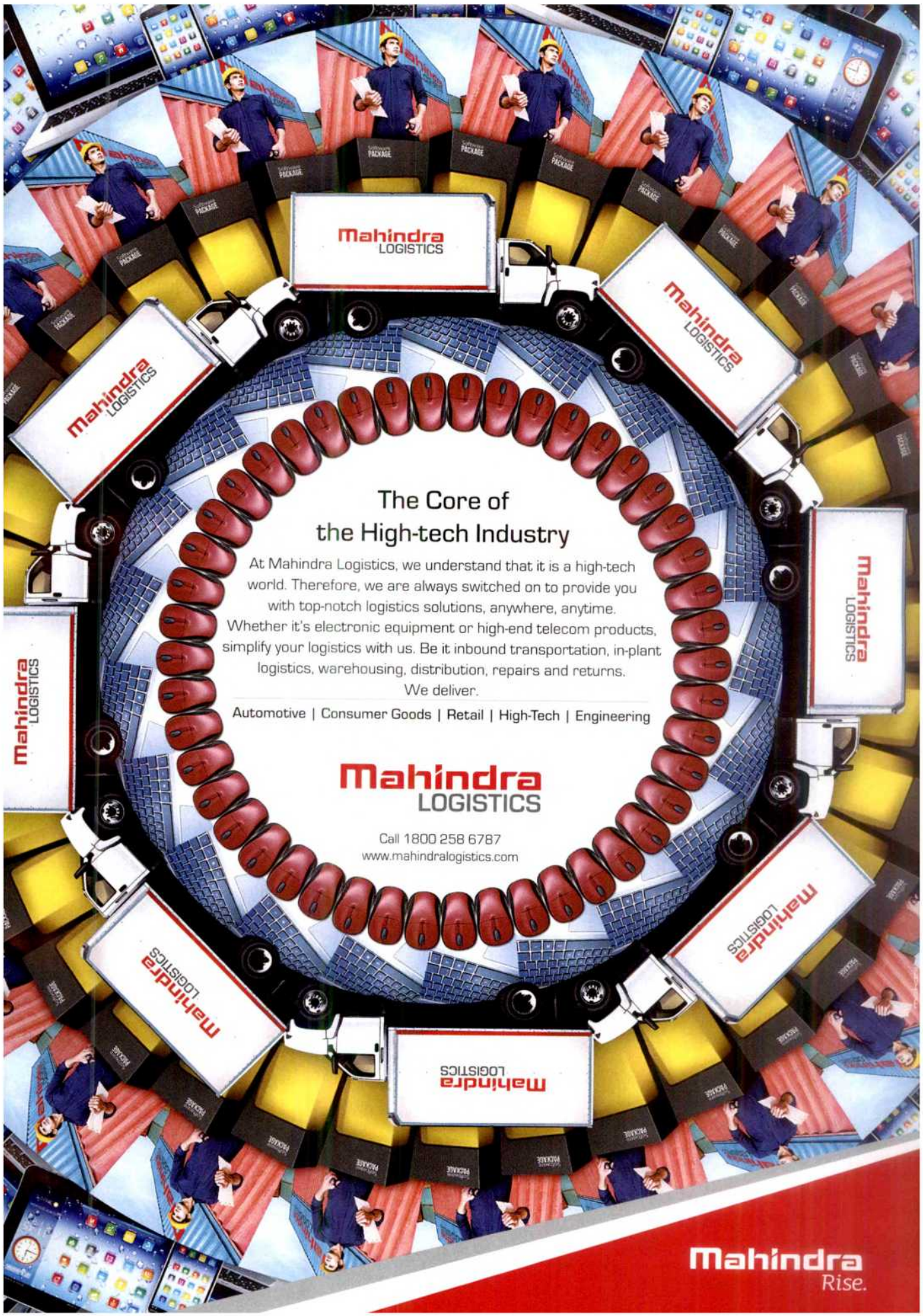
Two recent incidents indicate the severity of the situation. In April, a scandal involving purchase of spurious medicines by a government-appointed committee came to light in Jammu and Kashmir. On May 6, shops, other businesses, public transport and educational institutions remained closed in Srinagar to protest against fake drugs. Again, in April, the Gujarat Food and Drug Control Administration (FDCA) busted a racket of illegal manufacturing and sale of spurious drugs in Ahmedabad. Last year, the FDCA launched a system that notifies all chemists and druggists of recalled fake or substandard drugs through text messages. Other states are keen to implement a similar system.

Laboratory testing of samples is another big issue. At present, drug inspectors pick samples randomly to check for quality or following a complaint from a consumer. These samples are then sent to state laboratories for testing, and manufacturers asked for an explanation in case of an adverse report. Singh says about 50,000 drug samples are tested annually across the country. He says the aim is to enhance this number five to six times by 2017 and also to ensure quicker turnaround time. Currently, it takes five to six months to get the final sample report. "We will have a fast-track system, and mobile labs equipped not only with modern equipment but also with trained manpower," he says. The government is also planning to use the expertise of organisations such as the Centre for Cellular and Molecular Biology and the Indian Institute of Chemical Technology, both in Hyderabad, for this exercise.

50,000
drug samples are tested annually in India

Are these measures enough? No, say industry executives. The government's main focus appears to be on controlling drug prices as part of its social welfare agenda. While price control benefits consumers, it may also encourage companies to cut corners. Industry executives say that, as FDA-approved plants cannot match the prices of drugs made in non-certified units, many top companies do not take part in tenders that government hospitals and some large government organisations call for drugs supply, since the selection yardstick is the lowest price.

Howsoever stringent, external supervision alone cannot tackle all problems the pharmaceutical industry is facing. The government and industry should encourage corporate executives as well as government officials to disclose wrongdoings in their organisations. "The government has had a whistleblower policy for the last two years with a reward of ₹25 lakh for the whistleblower," says Shahani of Novartis. "Have you heard of any whistleblower?" ◆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KIRAN MAZUMDAR-SHAW

Let's Set a Global Drug Quality Benchmark

The crisis in Indian pharma is a chance to develop a new regulatory path

With Indian-made generics accounting for a US market share of over 25 per cent, it is not surprising that it is gaining significant mindshare of the Food and Drug Administration (FDA). The spate of quality issues with leading Indian pharmaceutical companies in the past couple of years however should not be viewed in isolation. Big Pharma in the West, too, has been facing increasing flak from the FDA and other regulators over good manufacturing practice (GMP) violations. High profile names like J&J, Genzyme (Sanofi), GSK, Sandoz, Watson, Teva and many others have encountered their share of quality problems and have been served with 'warning letters' from FDA.

The real issue is of quality medication – and how we can ensure that every tablet or dose whether for home or overseas markets is of the highest quality. This is important since India has already taken its place at the high table of the global generics market with around $15 billion in exports expected to increase to $20 billion by 2020. Instances of GMP violations stem from negligence. Indian companies need to put in place checks and balances to prevent such slip-ups.

Non-compliance is not new to the global pharma industry. It is due in part to the stringent and diverse regulations across markets that require compliance. The FDA is a highly vigilant regulator that relentlessly pursues non-compliance action against a large number of companies all over the world. Given our fast growing share of the US generics market, the FDA has naturally been conducting inspections in India more assiduously and frequently. This has resulted in several notices being issued to Indian companies. Compounding this is the hefty fine levied on Ranbaxy for a past breach in compliance.

Several factors have led to this crisis in Indian pharma. One is there are too many regulators and policy makers. Regulation and policy is governed by the ministries of health as well as chemicals and fertilisers. For biopharma companies, in addition to these, there is the Department of Biotechnology and the Ministry of Environment. Manufacturers thus have to comply with overlapping, and at times contradictory directives, from three different departments. At the policy-making level, a single ministry for the pharma sector is one way forward.

Then, there is a huge gap between small and large companies based on quality testing and automation in manufacturing infrastructure. This by itself creates quality issues and it is vital to ensure that we bring pharmaceutical manufacturers irrespective of size, under the ambit of common quality standards.

While the industry needs to heed the writing on the wall, there is much that government can do to redress the situation. To start with, we need uncompromising regulation along the lines of the FDA. The issuing of manufacturing licences should be strictly regulated and the frequency of spot audits stepped up along with severe penalties for non-compliance. Rigorous training programmes for regulators of at least one year should be instituted and made compulsory. It is important that approval and regulation be conducted by people who thoroughly understand compliance requirements including quality, efficacy, immunogenicity and GMP – not just the quality standards handbook. Clearly, the government needs to look beyond its technocracy to induct experts with wider exposure to manufacturing and compliance.

For all the challenges however, I believe this crisis is a huge opportunity to develop a new regulatory path – one with a global standards quality framework and implemented with zero-tolerance regulation. ◆

The author is CMD, *Biocon*

The issuing of manufacturing licences should be strictly regulated and the frequency of spot audits stepped up along with severe penalties for non-compliance

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Fatal Attractions

A glimpse into the working style of India's star IT salesman, who is embroiled in a sexual harassment case for the third time.

By GOUTAM DAS

Four years ago, Phaneesh Murthy realised he'd become a bit chunky and began a punishing gym programme. But sticking to an exercise schedule wasn't easy because the chief of IT outsourcing company iGate Corp travelled about 20 days a month. So, Murthy bought a pair of cheap canvas running shoes that fit easily into his travel bag – and began running in every city he visited on work. Determined to shed those extra pounds, he even ignored security warnings from colleagues and ran in cities such as Guadalajara in Mexico where abductions by criminal gangs are common. Six months later, he had dropped a couple of sizes.

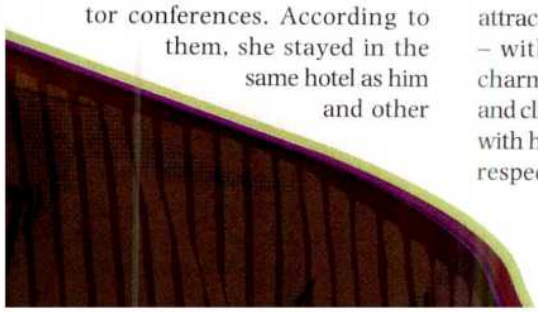
Murthy has always been obsessed with the idea of winning. And, for the most part, he's been a winner. He won massive contracts from Apple Inc for his previous employer Infosys and grew iGate from a virtually unknown company before 2003 to a billion-dollar entity today. At

one time, the man often called the "other Murthy" at Infosys was tipped to succeed Nandan Nilekani as CEO of the leading software services exporter. (N.R. Narayana Murthy is chairman emeritus and co-founder of Infosys.) "Professionally, I doubt if there is anybody as savvy as Phaneesh," says Bala Palamadai, a former Infosys executive who Murthy recruited in 1999.

But last month iGate sacked Murthy after a company sexual harassment investigation revealed he had not disclosed a relationship with a subordinate employee. The US-based firm said he had violated company policy and his employment contract by not disclosing the information. It did not name the employee who had accused him of sexual harassment and said Murthy had not violated iGate's harassment policy.

But California-based law firm Aiman-Smith & Marcy said in a statement iGate's investor relations head, Araceli Roiz, was pregnant with Murthy's child and would sue him for sexual harassment. Murthy said the case was an attempt at extortion. "Without question, it is a case of extortion. Ever since the first case became public, everybody feels that they have an absolutely easy way to collect money on whatever pretext," he told journalists during a teleconference on May 22. "The intent will be to contest it vigorously if there is a lawsuit filed."

Some former colleagues say Roiz often travelled with Murthy on investor conferences. According to them, she stayed in the same hotel as him and other board members even though she was not entitled to five-star accommodation. Murthy told *Business Today* in an email the question of whether Roiz received disproportionate favours should be answered by the company. iGate did not respond to email queries. According to Roiz's lawyers, Murthy began pursuing her shortly after her employment began in 2010.



MURTHY SAYS ARACELI ROIZ'S SEXUAL HARASSMENT ACCUSATION IS AN ATTEMPT AT EXTORTION

This is the second time the high-profile 49-year-old infotech industry executive has lost his job following accusations of sexual harassment. Eleven years ago, Infosys asked him to quit after his assistant in the US, Reka Maximovitch, accused him of sexual harassment. Murthy denied the accusation. Infosys reached an out-of-court settlement with Maximovitch for $3 million. A year later, another Infosys employee in the US, Jennifer Griffith, filed a similar case against Murthy. The case was eventually settled for $800,000. He paid $400,000 and Infosys' insurance company paid the other half.

Still, some former colleagues say Murthy does not have a glad eye but attracts people – and not just women – with his intellect. They say he charms everybody from employers and clients to analysts and journalists with his sharp mind. "He was always respectful and well-behaved. His personal assistants were women. There were many women in his team. He is not a guy to force himself on a woman. He mostly tried attracting them through his intellectual ability," says a former iGate employee, who worked closely with him.

Murthy's professional rise was certainly meteoric. He got a break with IT company Sonata Software soon after graduating from the Indian Institute of Management, Ahmedabad, in 1987. "I was impressed by his confidence. At a time when very few chose the software industry as a career, he was willing to tread a different path," says B. Ramaswamy, former Sonata Software Managing Director who recruited Murthy.

At the time, Sonata was making one of India's earliest business software systems and was unprofitable. Ramaswamy says Murthy started work on marketing the new system the first day he arrived in a Maruti 800. "Software products were mostly unheard of in the 1980s. He managed to segment the market well, simplify the usage for small businesses, articulate the value proposition and convince many to buy. In a year's time, Sonata broke even on the back of only this product," he adds.

Murthy carried the same marketing savvy to Infosys, his next employer. As the company's head of sales, he helped the software exporter grow exponentially from a

MURTHY'S NEMESIS

The three women behind his fall

REKA MAXIMOVITCH
Murthy's former assistant at Infosys accused him of sexual harassment. Infosys reached an out-of-court settlement with her for $3 million in 2003.

JENNIFER GRIFFITH
A former Infosys employee accused Murthy of sexual harassment in 2003. The case was settled for $800,000.

ARACELI ROIZ
iGate's investor relations head has threatened to sue Murthy for sexual harassment. He says the case is an attempt at extortion.

meagre $2 million in the early 1990s to $545 million by the time he quit in 2002. In the 1990s, Murthy used to handpick people. He hired 40 employees from banks and consumer goods firms and sent them to the US to sell. "He pioneered the relationship-based selling model," says Palamadai, who now runs a consulting firm in Chicago. "All IT companies were using delivery folk to sell before that."

In 1995, he dramatically changed the industry's dynamics when he bagged a multinational client at $24 an hour at a time when Indian IT companies were doing business with US clients at $14 to $18. "Phaneesh could sell anything. He managed to position Infosys well, take fast decisions and set new benchmarks for the whole industry," says T.V. Mohandas Pai, former board member of the company.

At iGate too, Murthy always thought big and rivals said he was looking at ways to get back at Infosys. When the Satyam scandal broke in 2008/09, he wanted to buy out the company. Palamadai, who was heading sales for a Satyam team in 2008, went to Murthy to discuss the possibility of a management buyout. "But then Murthy backed out because the company's financial situation was uncertain," says Palamadai.

Murthy finally got his chance in 2011 when he acquired Patni Computer Systems for $1.22 billion. The acquisition pushed iGate's revenues up from just $300 million to over a billion dollars in 2012. In his final months at the company, Murthy was aggressively pushing a new billing model based on charging customers for business results instead of man hours, the traditional model used by the Indian infotech industry.

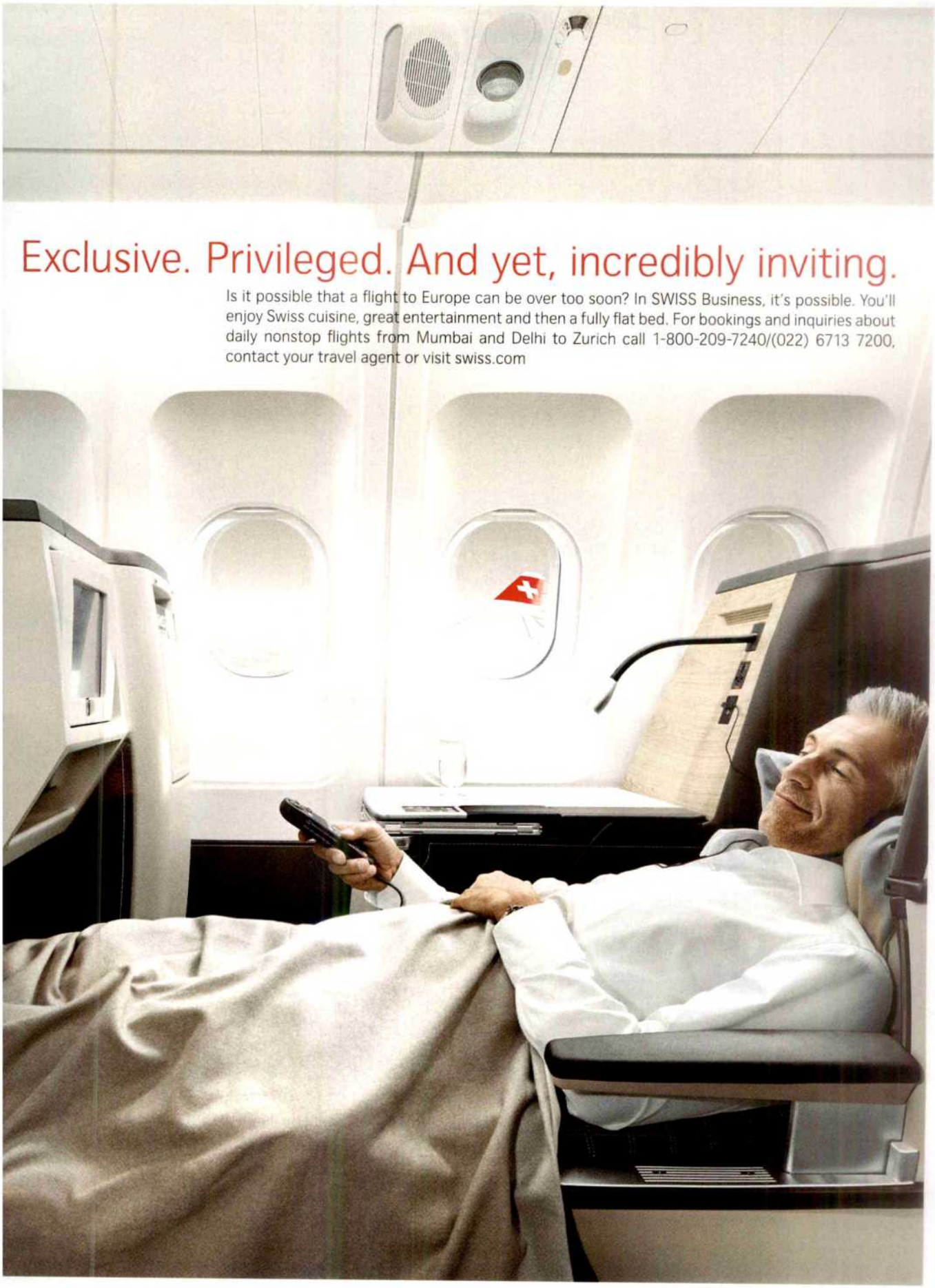
FORMER COLLEAGUES SAY MURTHY WAS A BRILLIANT SALESMAN AND STRATEGIST WHOSE OBSESSION WITH WINNING EXTENDED BEYOND THE CORNER ROOM

Former colleagues say Murthy was a brilliant salesman and strategist whose obsession with winning extended beyond the corner room. "He often challenged employees to play badminton with him and beat them. In cases where he lost, he never accepted defeat gracefully," says a former colleague. "In frisbee games, he often got aggressive and physical when he was on the losing side. He came across as a bully on the playfield."

According to former colleagues, Murthy was not a big spender and never entertained employees extravagantly or wore expensive clothes. He grew up in a middle-class family of engineers in a traditional Bangalore neighbourhood. "He hardly takes employees out for dinner; and when he does, particularly in the US, he prefers unlimited salad restaurants priced between $8 and $10 a plate," says the former colleague.

One question that many people are now asking: is this the end of Murthy's career? Nobody has any answers. ◆

Send your comments to editor.bt@intoday.com



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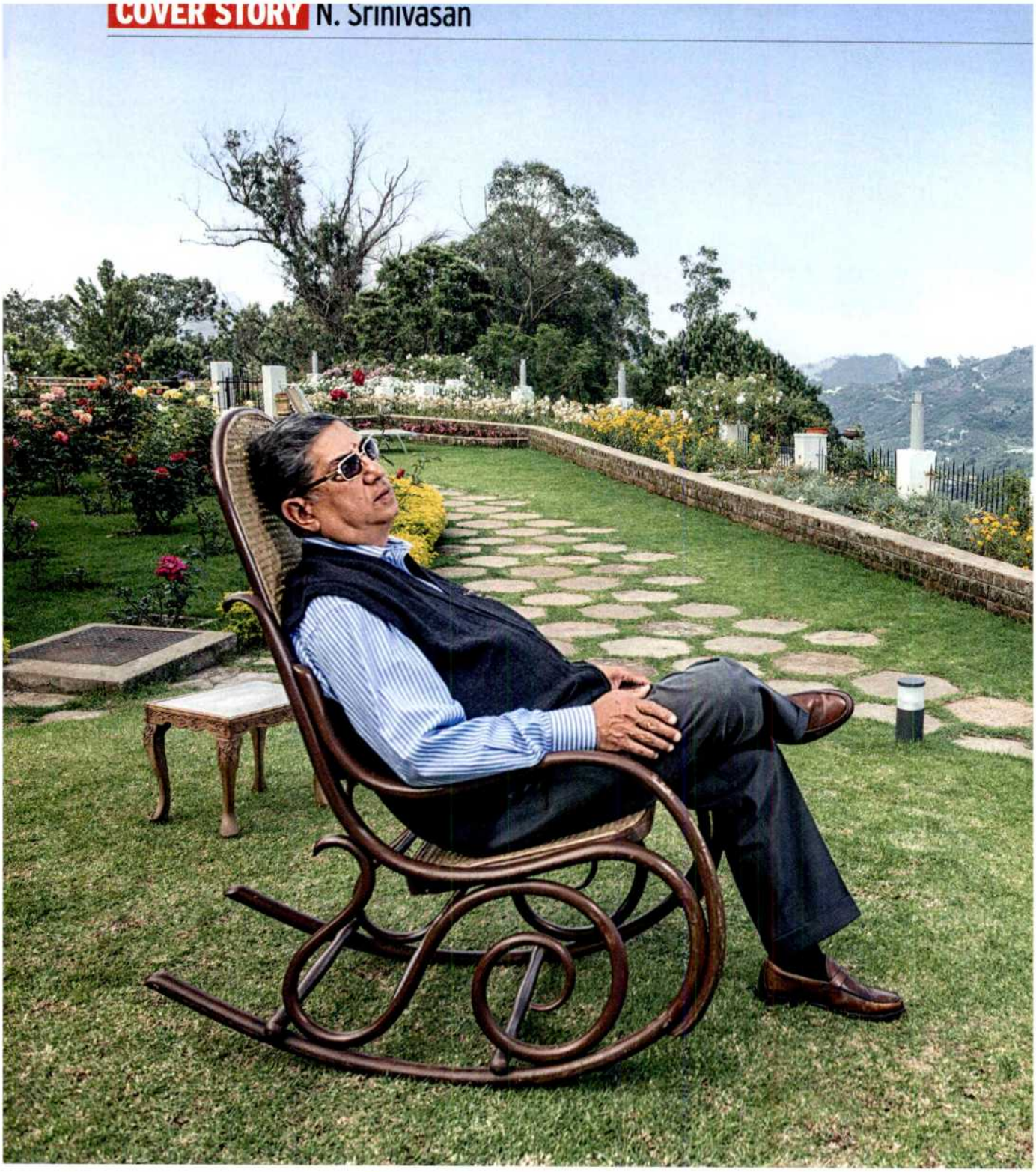


THE BIGGEST... India Cements is the largest producer of cement in South India

Capacity in million tonnes

17.13	14.44	11.50	9.50	6.20
India Cements	Madras Cements	Chettinad Cement	Dalmia Cement	Zuari Cement

THE COMPANY HE KEEPS

With the odds stacked against him, Narayanaswami Srinivasan might feel at home, says **N. Madhavan**

VIVAN MEHRA/www.indiatodayimages.com

That clammy Chennai afternoon in 1961, tennis coach T.K. Ramanathan was perplexed. He knew a good player when he saw one. His son Ramanathan Krishnan had played the semi-finals at Wimbledon that year as well as the previous one, the only Indian to have gone that far at a Grand Slam. But there was something about the boy on court before him that needed explaining.

Short, with a body not tailor-made for tennis, the 16-year-old was like a terrier on court, openly defying the limitations of his physique. After much thought, TK articulated it to a ward: "If you want to win against this kid, you will have to defeat him. He will never give up and lose."

That kid, N. Srinivasan, is today the greatest force in Indian sport. And that is not because of a miraculous transformation in his physique. He would still struggle to nudge 5'5", and may tip the scales at a level far above what weight management websites prescribe.

However, as the president of the Board of Control for Cricket in India (BCCI), he is the heaviest in the business of sport. And he won't let go, openly defying the howls and

... BUT NOT THE BEST

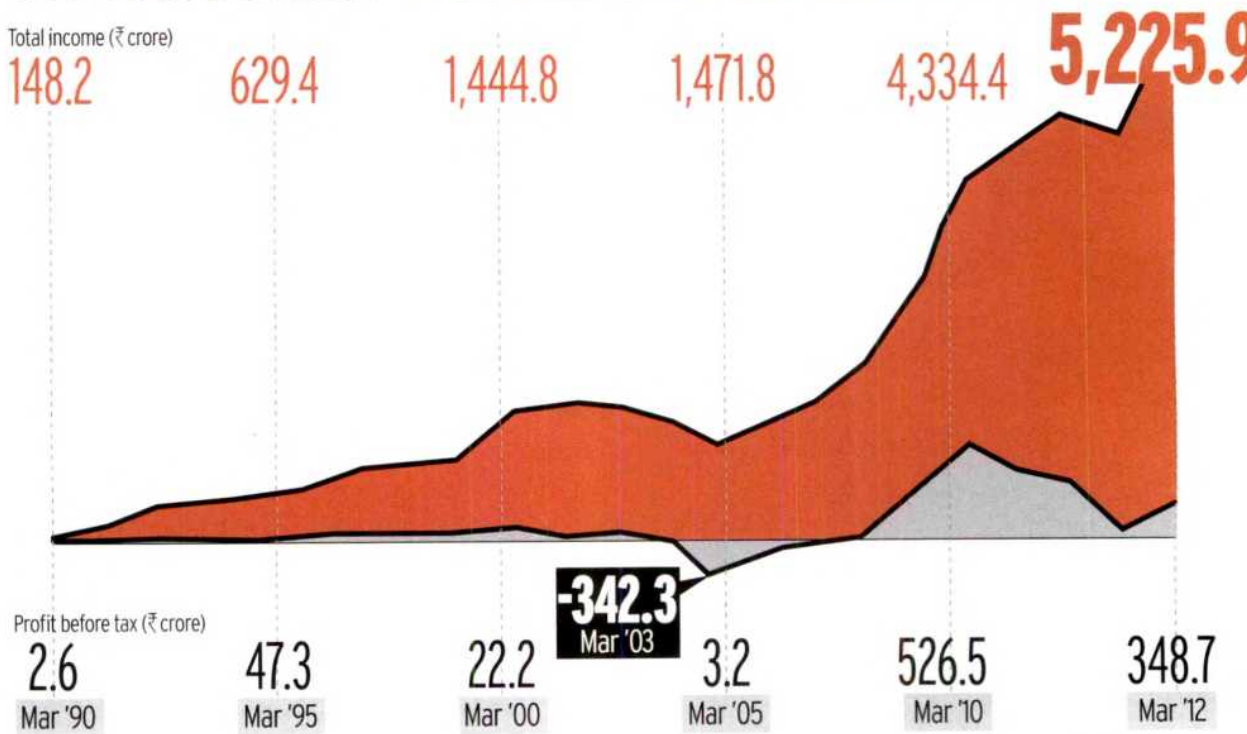
■ Operating profit margin ■ Net profit margin

Figures in %

Madras Cements	India Cements	UltraTech	ACC	Ambuja Cements
30 / 12	19 / 7	25 / 12	20 / 11	27 / 12

Source: Industry data

UPS AND DOWNS Revenues have risen sharply but profits have been cyclical



Source: CMIE Prowess

yelps for his resignation. TK might have said: "He will not give up and quit." Even if that means saying at a press conference that his son-in-law, arrested for betting and fixing, used to be seen in the Chennai Super Kings dugout merely because he was "enthusiastic".

The Company He Managed to Keep

Distancing himself from the son-in-law, Gurunath Meiyappan – scion of the fabled film house of AVM and a lover of fast cars – looks like a desperate attempt to save Chennai Super Kings, the highly successful Indian Premier League (IPL) franchise owned by India Cements, of which Srinivasan is the promoter and top manager. For the fortunes of the franchise are perceived to be intertwined with those of the company, South India's largest cement maker. Its shares had crashed 18 per cent in the 10 days after the spot-fixing scandal broke out. Not a welcome development when 71 per cent of the promoter group shares are pledged.

This could be just the time to bring out the terrier in Srinivasan. Disentangling himself from the antics of Meiyappan, husband to his only daughter and perceived heir Rupa, would hardly lead to a happy atmosphere at home. Already, his terms with the son are not the most cordial. Srinivasan's only brother, N. Ramachandran, three years younger, was with India Cements as executive director but walked out in August 2009, selling his stake to Srinivasan. This purchase was among the deals that led to the pledging of shares.

But all this is nothing compared to what Srinivasan has done out of his love for India Cements, a company co-founded by his father, T.S. Narayanaswami, with S.N.N. Sankaralinga Iyer.

Narayanaswami died in 1968, thrusting a 23-year-old Srinivasan, who was away studying chemical engineering in the United States, in a situation that required him to save the family business. Srinivasan became the deputy managing director of India Cements under K.S. Narayanan, Sankaralinga Iyer's son, who was the MD.

₹3,245.92 cr is how much BCCI had in assets, loans and advances in 2011/12, up 32% over 2010/11

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The arrangement proved tenuous, largely due to the generation gap between the two. The tyke was eased out in 1979.

"That was the most testing period of my life. I was young, alone and wronged," recalls Srinivasan, looking anything but troubled in the garden of his house in Kodaikanal that sits on a cliff. Old-timers in the area say the property once belonged to the family of Finance Minister P. Chidambaram. Srinivasan, as he does every year, has come to spend the month of May here. He has no idea that in just a few days his only annual break will be disrupted violently as the world discovers the IPL's soft underbelly, with its festering betting and fixing. He has just had a round of golf, at which he boasts a respectable handicap of 10.

Though evicted, Srinivasan wouldn't give up. He went to court against his ouster and the company's annual general meetings became noisy affairs. As the battle raged, financial institutions, which held substantial equity, took control of the company. To get back in, Srinivasan began to spend a lot of time away, in New Delhi.

He spent months hanging around in Parliament library, a place where you found – you still do – people who could influence businesses without being a part of them. Those who saw Srinivasan then recall that he at times wrote speeches for MPs, all in an effort to get close to them. "My single-minded objective was to get India Cements back," he says.

That was going to be more difficult than striking a few friendships, not the least because someone else soon joined the fray.

In 1982/83, cigarette maker ITC, much before it decided to acquire a new identity through confectioneries and toiletries, got interested in cement. Bureaucrats managing India Cements on behalf of the institutions liked the idea, and ITC bought the equity holdings of LIC and UTI. "I had to approach the courts and the Company Law Board and get this deal nullified," says Srinivasan.

ITC finally gave back the shares to the institutions. But it was only in 1989 that Srinivasan could benefit from a favourable political climate and his friendship with DMK leader Murasoli Maran to swing the deal. N. Sankar, Sankaralinga Iyer's grandson, became the Chairman of India Cements and Srinivasan the MD, running the day-to-day operations.

The arrangement was worked out using the time-honoured tools of realism (neither clan would get to control the company on its own), networking (politicians, as ever so often, played brokers), and ties of blood (Srinivasan's wife is from Sankaralinga Iyer's family).

"Those 10 long years robbed me of important years but taught me the virtues of perseverance, and the will to fight, and it ingrained in me the need to be alert 24/7," he says.

If you are still not convinced that Srinivasan would fight a good fight in the fixing saga, here is more. When he re-entered India Cements in 1989 it could make a mere 1.6 million tonnes a year, hardly enough to accommodate his ambition. Ten years of management by the institutions had put growth out of boardroom discussions. To the bureaucrat-managers, status quo was better than expansion, as the latter would entail decisions and accountability.

April 2011
A two-judge bench of the Supreme Court gives a split verdict on the legality of Srinivasan, then BCCI Secretary, having business interests in the Chennai Super Kings, an IPL franchise. The case has been referred to a larger bench

That was when the government lifted its controls over the cement industry, which till then had to take the Cement Controller's permission to decide how to sell, whom to sell to, and sell at what price.

"Once the decontrol happened, we were in a competitive environment and scale became critical," says Srinivasan. He embarked on a series of acquisitions: Coromandel Fertlizer's unit at Chilamkur in Andhra Pradesh in 1990, Visaka Cement in 1997, and Cement Corporation of India's Yerraguntla unit in 1998. In 1996, India Cements set up a million-tonne unit of its own at Dalavoi in Tamil Nadu.

South India in those days was starved of cement. This caught the attention of the big guys – indigenous Gujarat Ambuja and Larsen & Toubro, as well as multinationals like France's Lafarge. Srinvasan not only wanted to stave off predators but also keep them out by growing big himself. His biggest acquisition came in 1998. India Cements held 10 per cent in Andhra Pradesh company Raasi Cement. The itch for more became uncontrollable when promoter and chairman B.V.

₹382.36cr was BCCI's net surplus for 2011/12, up 101.53% from ₹189.73 crore the previous year

CONTROVERSY MAN

Srinivasan says he somehow finds himself in the thick of things

September 2011
The apex court allows Srinivasan to take over as BCCI president, pending the outcome of a case that accused him of having a conflict of interest by both owning a team through his company and being head of BCCI

June 2012
The Competition Commission finds India Cements guilty of cartelising and inflating prices. The company is fined ₹187.48 crore

June 2012
Srinivasan appears before the CBI in the Jagan Mohan Reddy assets case. He is accused of making quid pro quo investments in the firms run by Jagan, the son of former Andhra Pradesh Chief Minister Y.S. Rajasekhara Reddy

May 2013
Gurunath Meiyappan is arrested on charges of betting. India Cements clarifies that Meiyappan, Srinivasan's son-in-law, has no formal role in CSK. Pressure mounts on Srinivasan to resign. He remains defiant

Raju's son-in-law, amid family rancour, put his eight per cent equity on the block. "We moved in quickly and bought the stake." This triggered an open offer, for which the threshold at that time was 15 per cent equity.

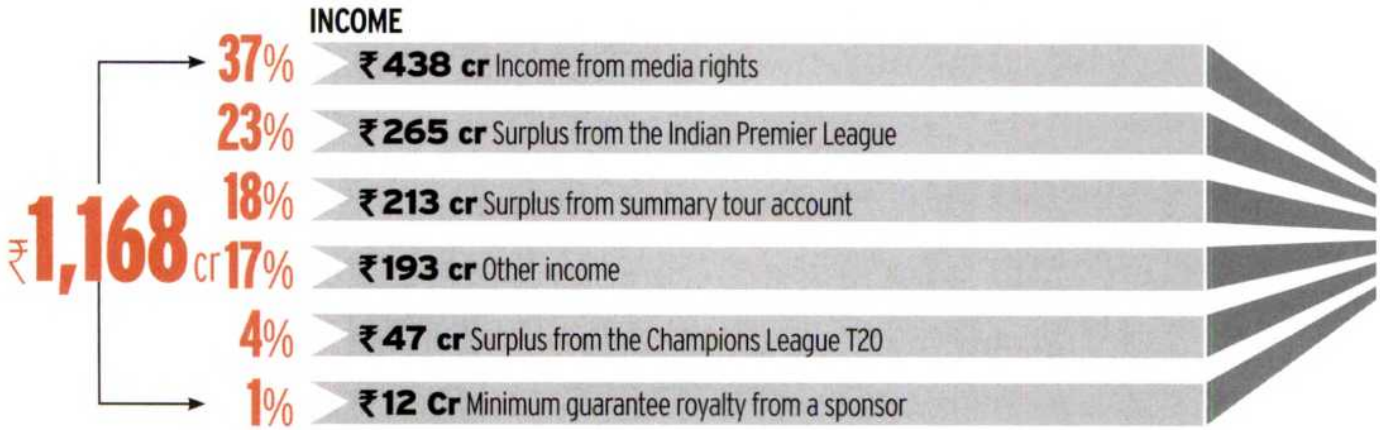
The Raasi management termed the takeover hostile and began lobbying with financial institutions to avert it. They even invoked "Andhra Pride". Raju was an elder statesman of the state's business community and seen as someone being done in by a family traitor. Srinivasan was the vulture circling over a family feud. In his own eyes, though, he was the Good Samaritan.

"Ours was not a hostile takeover," he says. "We bought the stake to pre-empt MNC companies from acquiring it. I met Raju at his house in Hyderabad and explained that. I even offered to give back the shares India Cements had in Raasi. A joint management idea was also proposed."

As it turned out, Raju chose to exit Raasi. India Cements acquired his entire stake and then made the open offer. A happy byproduct of the deal was Sri Vishnu Cement, in which Raasi held a controlling stake and which naturally came into India Cements' fold.

By now India Cements' capacity had jumped to nine million

THE GRAVY TRAIN BCCI's money trail in 2011/12



A total of ₹75.10 cr was distributed among 174 cricketers who retired before 200

₹1.50 crore each to those who played more than 100 Test matches	₹1 crore each to those who played between 75 and 99 Test matches	₹75 Lakh each to those who played 50 to 74 Test matches	₹60 Lakh each to those who played 25 to 49 Test matches

Kapil Dev ₹1.5 cr No. of Tests: 131	Syed Kirmani ₹1.5 cr No. of Tests: 88	Sunil Gavaskar ₹1.5 cr No. of Tests: 125	Ravi Shastri ₹1.5 cr No. of Tests: 80	S. Manjrekar ₹75 lak No. of Tests: 37

tonnes, the most in the south and among the five largest in India. Then the winner's curse struck.

The Company He Nearly Lost

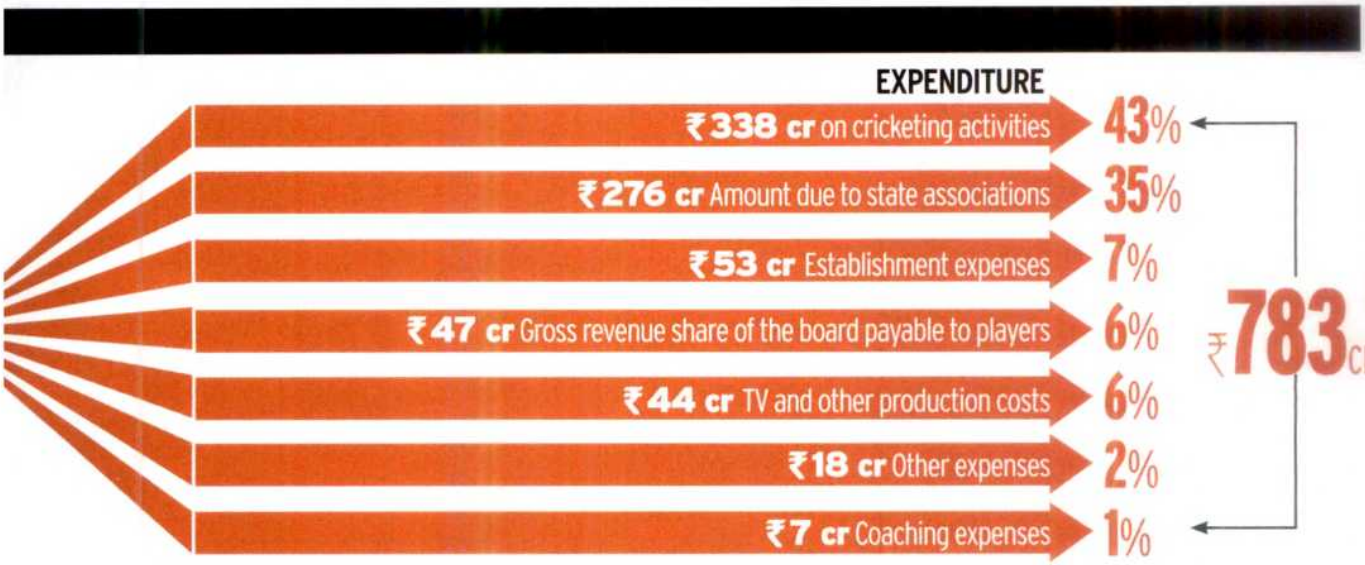
The rapid expansion was funded mostly by debt, of which there was no less than ₹1,750 crore now weighing on India Cements. To make matters worse, the government announced that from January 23, 2000, companies setting up projects could no longer keep the sales tax collected. Without this incentive, project cost would shoot up. A rush for fresh capacity began before it was phased out. That led to overcapacity. According to estimates, by 2002/03 the cement industry in the south had 40 per cent more capacity than the market demanded. Prices crashed.

That, and the burden of debt servicing, caused India Cements to report its highest ever loss of ₹307 crore in 2002/03. It began to default on debt payments – interest and principal.

"We had no choice but to opt for corporate debt restructuring," says Srinivasan. India Cements was forced to sell its ships – it had a shipping division – land, and Sri Vishnu Cement. But that was not enough. A time came when it looked like Raasi would have to be sold, too.

But, once again, Srinivasan rose to defy his circumstances. When no help was available at home, he chose to issue global depository receipts (GDRs), much against the advice of every market expert.

The advice was sane: which global investor would put money in a company that had defaulted on



Source: BCCI annual reports

₹50 Lakh each to those who played 10 to 24 Test matches	₹35 Lakh each to those who played 1 to 9 Tests, the last before 1970	₹30 Lakh each to those who played 100 or more first-class matches	₹25 Lakh each to those who played 75 to 99 first-class matches

Note: For the calculation of this bounty, three ODIs were taken to equal a Test

debt servicing? "I went for it as I did not want to dismember the company anymore and was confident of convincing the investors of India Cements' future," says Srinivasan.

He pulled it off. The GDRs raised ₹497 crore. Fortuitously, cement prices bounced back. India Cements emerged out of the CDR. "I learnt one bitter lesson from this crisis: never expand in a fractured market using debt," he admits.

Expansion has other costs, too. India Cements is a large company today, but not the most efficient. Its operating profit and net profit margins lag peers (See *The Biggest... But Not the Best*).

"India Cements is a collection of units which we set up, acquired or picked up in auctions. They are of different vintages, technologies, and age. Had we set up these capacities ourselves we would have also been the best, but it would have taken much longer."

On May 20, the company reported a 44 per cent decline in net profit for 2012/13 to ₹163.55 crore on revenues of ₹4,597 crore.

The Company He Keeps

Srinivasan entered the world of cricket administration by accident, and stayed on because of his abhorrence for losing.

In 1993/94, Sankar, with whose family Srinivasan had rebuilt relations to wrest India Cements back, became the president of the Tamil Nadu Cricket Association (TNCA). Sankar suggested Srinivasan for vice president. Srinivasan, who till then had shown no interest in cricket administration, agreed and contested. And lost.

For previous stories on BCCI and IPL, go to www.businesstoday.in/archives-jun2313

UPWARDS AND ONWARDS

What BCCI pays international players, effective 2010/11

	OLD	NEW
Tests	₹2.5 lakh	₹7 lakh
ODIs	₹1.6 lakh	₹4 lakh
T-20	₹1 lakh	₹2 lakh

Annual retainer fees to players

Grade A	₹60 lakh	₹1 cr
Grade B	₹40 lakh	₹50 lakh
Grade C	₹25 lakh	₹25 lakh

Sponsorships, effective 2010/11

Tests	₹1.9 crore	₹3.34 cr
ODIs	₹2.08 crore	₹3.34 cr
T20	₹1.56 crore	₹3.34 cr

Clothing sponsorship

Tests	₹58,000	₹70,000
ODIs	₹45,000	₹55,000
T20	₹33,000	₹40,000

Bonus for winning the 2011 World Cup

Players ₹2 crore each	Support staff ₹50 lakh each
Senior selectors ₹25 lakh each	**Total:** ₹36.75 crore

Source: BCCI annual reports

He went back to running his company, but did not forget the loss. "I do not like to lose," says Srinivasan. He contested the election again in 1998 and won, this time nominated by A.C. Muthiah, Chairman of Spic Group, who had taken a stranglehold on TNCA.

Three years later the two had fallen out. Muthiah blames Srinivasan for scuttling his bid to become the BCCI president in 2001, when they were apparently still close. Srinivasan went on to take a firm grip on TNCA.

In 2002/03, he ran for TNCA president and won. It is a post he still holds. By this time, his proximity to DMK was known to all; Muthuvel Karunanidhi would often be seen at cricket matches with Srinivasan giving him company.

Another politician, Maharashtra's Sharad Pawar, took Srinivasan to the national stage. Pawar had become the BCCI president in 2005 with ample help from Srinivasan, who by now was a force in South India's cricket set-up. Pawar made him BCCI's treasurer.

According to various accounts, Pawar liked Srinivasan for his decisiveness, especially the way he dealt with Pawar's predecessor in BCCI, Jagmohan Dalmia, who was expelled in 2006 for alleged mismanagement of funds. Srinivasan also proved astute in handling media rights and in allocating funds for cricket infrastructure.

Prior to 2005, BCCI offered ₹4 crore as infrastructure subsidy to the state associations. Today it is ₹50 crore. The last England tour saw Test matches played in three new stadiums at Ranchi, Dharamshala, and Rajkot. There are now academies across the country for players, umpires and pitch curators.

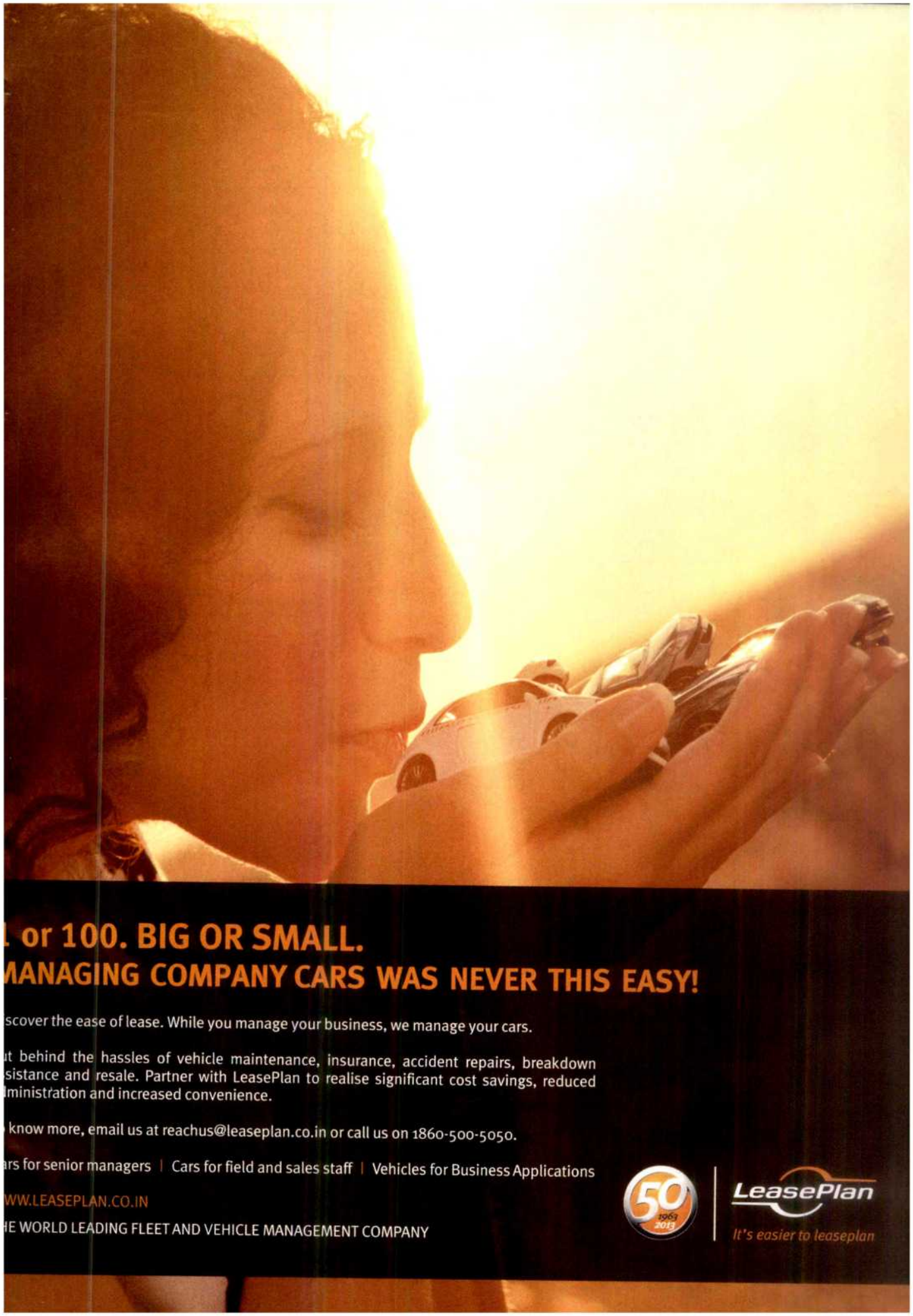
"The level of facilities is enormous and we have taken cricket to all nooks and corners of the country," says Srinivasan, adding this would not have been possible had BCCI not realised the fair value of Indian Cricket. "The following the sport has in the country, coupled with the interest advertisers have in promoting their products to this audience, has meant that media rights have become the single-largest source of revenue for BCCI. We are using it effectively to promote the sport."

While he gives to infrastructure, Srinivasan does not forget the men. Last year, BCCI gave away ₹75 crore to 174 cricketers who had retired before 2004. "This is our way of recognising them," says Srinivasan, amid phone calls asking him about an article on an Australian newspaper's website that had dubbed him "cricket's most destructive figure".

Questions have been raised whether BCCI's magnanimity under Srinivasan has silenced voices against his continued run even though the spot-fixing scandal has reached his doorstep. The jury is out on that, but there is no doubt that Srinivasan has never been short of supporters in his battles.

Of those there have been many. He has steadfastly thwarted all attempts by the International Cricket Council to make India embrace the Umpires Decision Referral System. The two premier voices of Indian cricket commentary, Sunil Gavaskar and Ravi Shastri, have always supported BCCI's stand on this. Incidentally, at one time both got about ₹3.5 crore a year from the board, in addition to what they got from the broadcasters.

Ajay Maken, when he was Union Sports Minister, had proposed a National Sports Development Bill aimed at changing the way sports federations were run in the country. The Bill proposed to bring all sports bodies under the Right To Information Act, place an age limit of 70 on their officer-bearers, and limit their terms to two. It divided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the Cabinet. Powerful ministers across party lines – Sharad Pawar, Farooq Abdullah, C.P. Joshi – opposed it. In October last year, Maken was elevated to Cabinet rank and given a different portfolio: Housing and Urban Poverty Alleviation.

When the IPL started in 2008, BCCI changed its rules to allow its office-bearers to own teams. Srinivasan is the only one who does – officially anyway. His friend-turned-foe Muthiah dragged him to court over this, alleging a conflict of interest. The Supreme Court allowed Srinivasan to take charge as the BCCI president pending the outcome of the case. It is still pending.

Srinivasan denies any conflict on the ground that everything had been disclosed, and that India Cements – not he – owns Chennai Super Kings. "India Cements had been involved in cricket even before the game became a money spinner. My father started this involvement way back in the late 1950s. We have traditionally employed cricketers such as S. Venkatraghavan, Rahul Dravid, R. Ashwin and M.S. Dhoni. At one point in time, most of the players who represented Tamil Nadu in Ranji Trophy were employees of India Cements. Cricket is part of India Cements' culture," he argues.

Not everyone buys his arguments. His company has been fined ₹187 crore by the Competition Commission of India for being part of a cartel and inflating cement prices. "We have appealed against the order and all I can say is that in a highly fragmented cement industry it is not possible to manipulate prices. Price parallelism has been wrongly construed as cartelisation," says Srinivasan. Other cement companies have also been fined.

He has been at the receiving end of the commission at the other front, too. BCCI has been fined ₹52 crore for abuse of its position.

He has also been questioned by the Central Bureau of Investigation in a case involving Y.S. Jagan Mohan Reddy, son of former Andhra Pradesh Chief Minister Y.S. Rajasekhara Reddy. India Cements has been accused of making investments in Reddy's companies in return for water from the Krishna river to its factories in Andhra Pradesh. "We invested ₹90 crore in Bharathi Cement (which is owned by Jagan Reddy) as it was coming up in our area. Our plan was to acquire it later, but the price they expected was too high. So we sold our stake for ₹120 crore and made a decent profit," he says. About the alleged quid pro quo, he says the government was bound by an agreement to supply the water.

H.K. RAJASHEKAR

Disowned: N. Srinivasan (left) with son-in-law Gurunath Meiyappan in happier times

As this magazine went to press, cracks seemed to be appearing in his fiefdom. Jyotiraditya Scindia, Union Minister and president of the Madhya Pradesh Cricket Association, on May 28 became the first from within the BCCI structure to call for Srinivasan's resignation.

The next day, IPL Commissioner Rajiv Shukla, after meeting BCCI vice president Arun Jaitley, said they had agreed that Srinivasan should "stay away" from the inquiry commission set up by the board to look into fixing and betting. According to the grapevine, both have ambitions to replace Srinivasan when his tenure ends this September. Shukla, however, did not say that Srinivasan should resign.

That the sports ministry did. "As there is a conflict of interest in this inquiry, the BCCI president should tender his resignation on moral grounds," the ministry said in a statement on May 29.

For Srinivasan, whose favourite book is Mario Puzo's *The Godfather*, it could be 1979 all over again, or 2003. To be sure, he won't give up and lose. If he is still the BCCI president by the time you get to read this, he may have been able to make an offer they cannot refuse. ◆

With inputs from Sebastian P.T.

Send your comments to editor.bt@intoday.com

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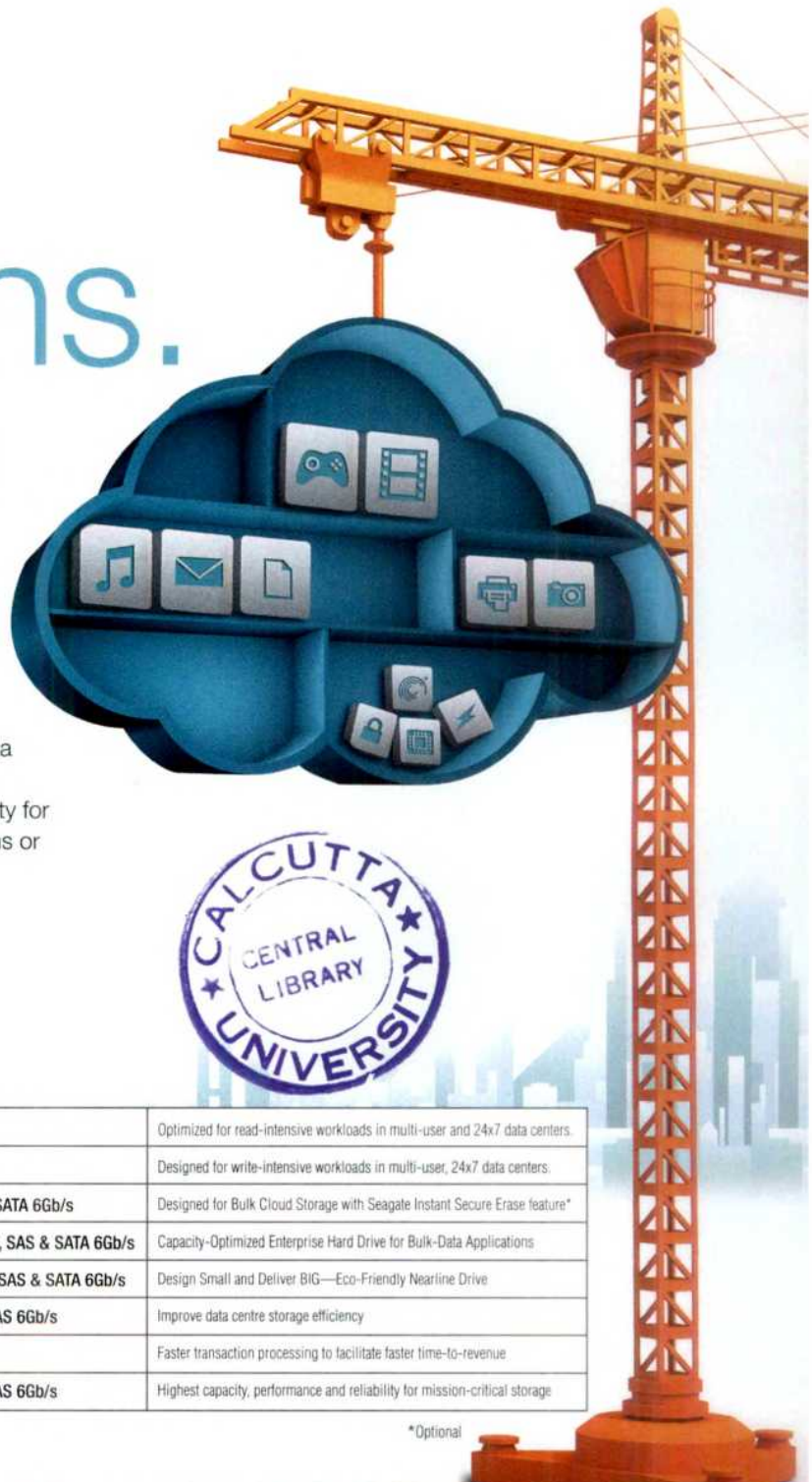

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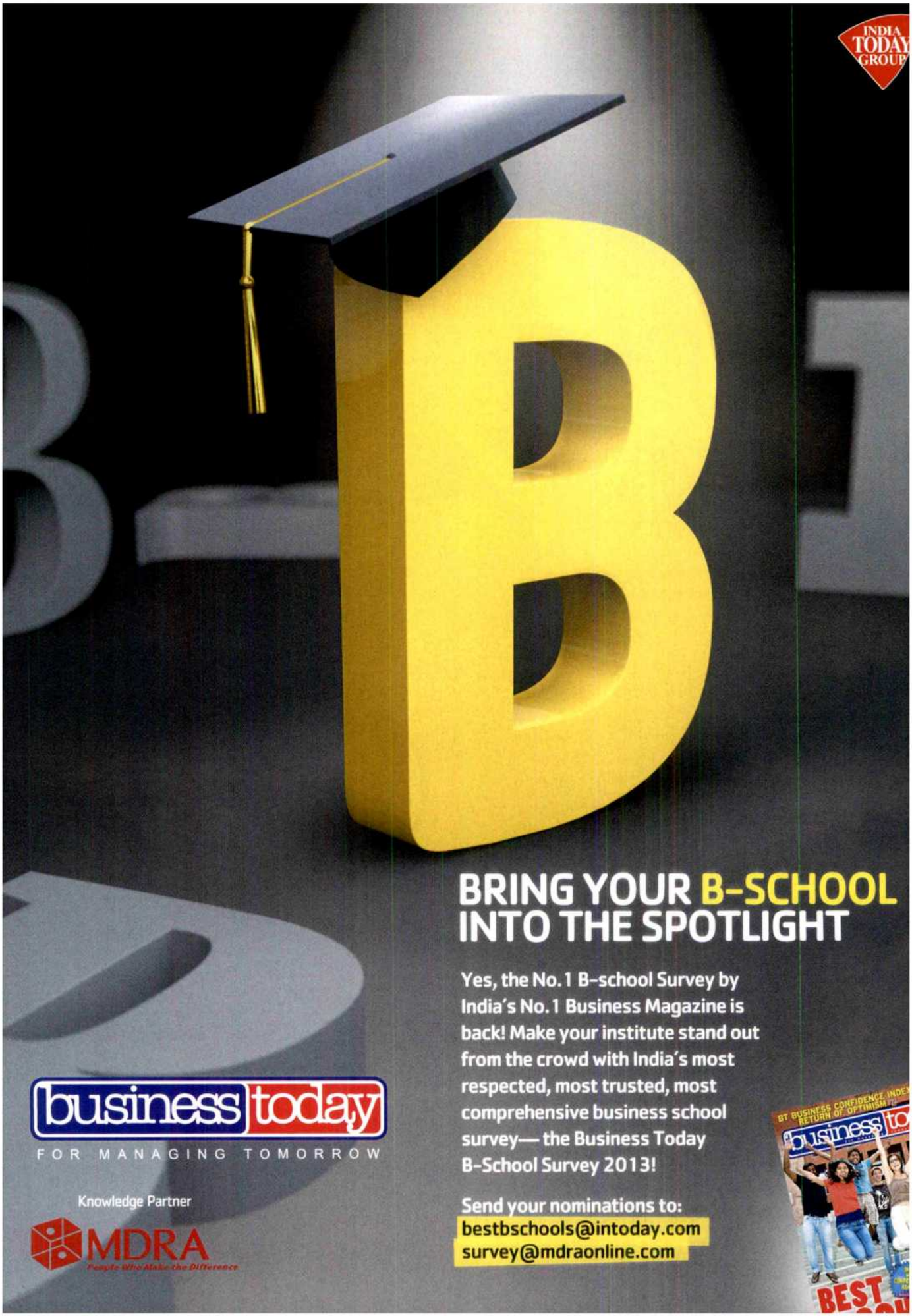
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BT-YES BANK BEST CFO SURVEY

Overview

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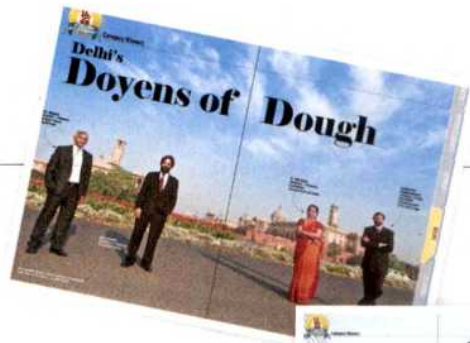

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India's Best CFOs

A BT-YES Bank Survey

OVERALL WINNER
Rajiv Tandon, ITC

SUSTAINED WEALTH CREATION (LARGE)
Rajiv Tandon, ITC

SUSTAINED WEALTH CREATION (MEDIUM)
Naresh Bhansali, Emami

CONSISTENT LIQUIDITY MANAGEMENT (LARGE)
R. Shankar Raman, Larsen & Toubro

CONSISTENT LIQUIDITY MANAGEMENT (MEDIUM)
Ambarish Raghuvanshi, Info Edge

BEST TRANSFORMATION AGENT (LARGE)
A.K. Mukherjee, Exide Industries

BEST TRANSFORMATION AGENT (MEDIUM)
L. Kishore Babu, Divi's Laboratories

BEST CFO OF A PSU (LARGE)
P.K. Bajpai, Bharat Heavy Electricals

BEST CFO OF A PSU (MEDIUM)
Ram Singh, Engineers India

BEST WOMAN CFO
P. Alli Rani, Container Corporation of India

BEST CFO OF AN MNC (LARGE)
R. Sridhar, Hindustan Unilever

BEST CFO OF AN MNC (MEDIUM)
Yogesh Dhingra, Blue Dart Express

REMARKABLE LEVERAGE MANAGEMENT (LARGE)
Kailash C. Birla, UltraTech Cement

REMARKABLE LEVERAGE MANAGEMENT (MEDIUM)
Kamal Kishore Baheti, McLeod Russel

ENHANCING COMPETITIVENESS THROUGH M&As
Sushil Agarwal, Aditya Birla Nuvo

COMMITMENT TO TRIPLE BOTTOM LINE
P. Ganesh, Godrej Consumer Products

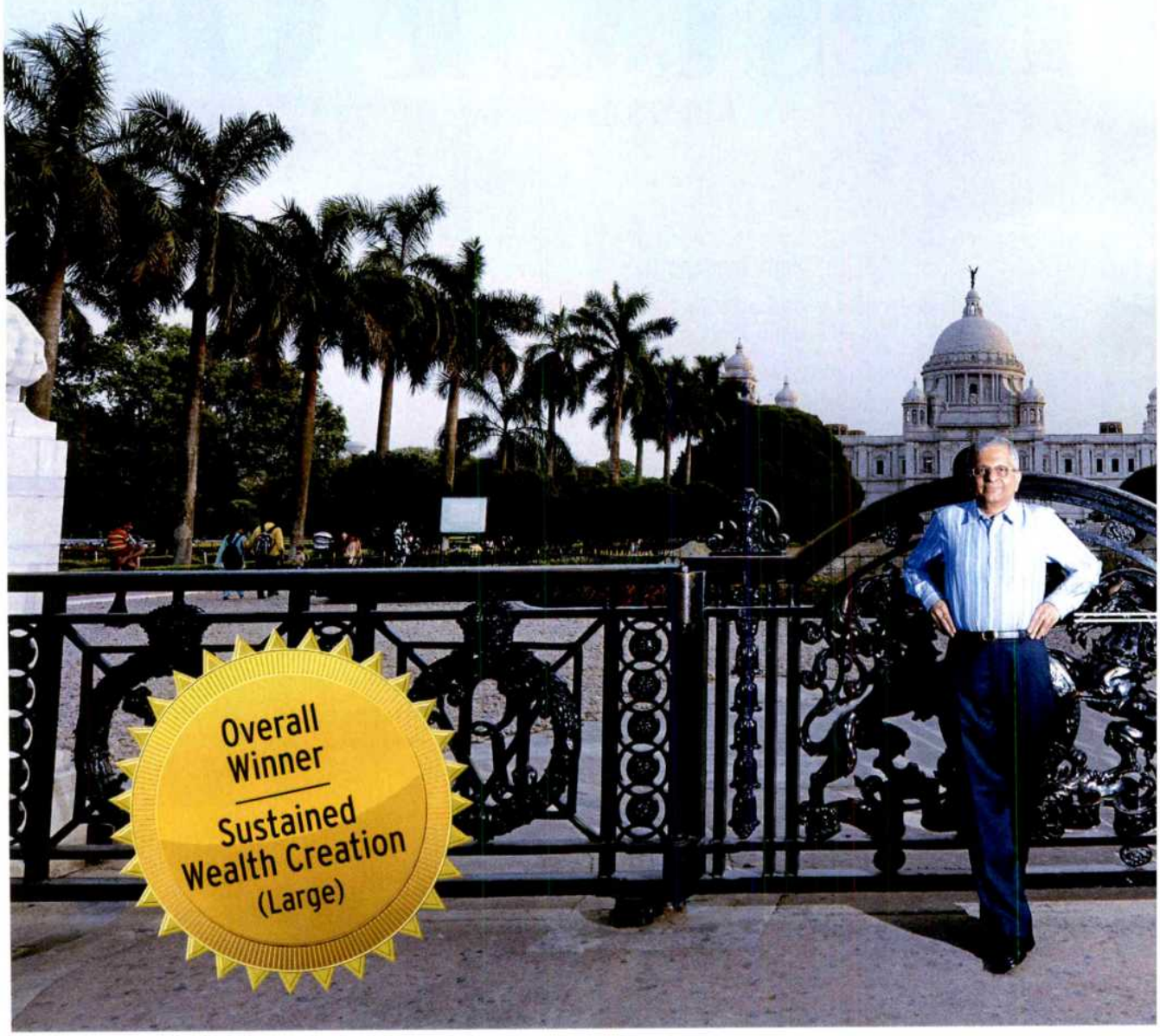
Now in its fourth year, the *Business Today* Best CFO Awards has created a legacy of success, and reached an aspirational level. The award recognises the people who have perhaps the most difficult job in corporate India – heading the finance department – especially at a time when the economy is struggling, and companies are struggling even more. They have to keep a hawk's eye on the top line, bottom line, shareholder returns, market value, debt levels, and so on. And they are also responsible for their companies' continued financial well-being and future strategies to tackle unanticipated changes in the environment. Which CFOs managed this complex role best? And how did they do it? Turn the page to find out.

BT-YES BANK BEST CFO SURVEY

Overall Winner

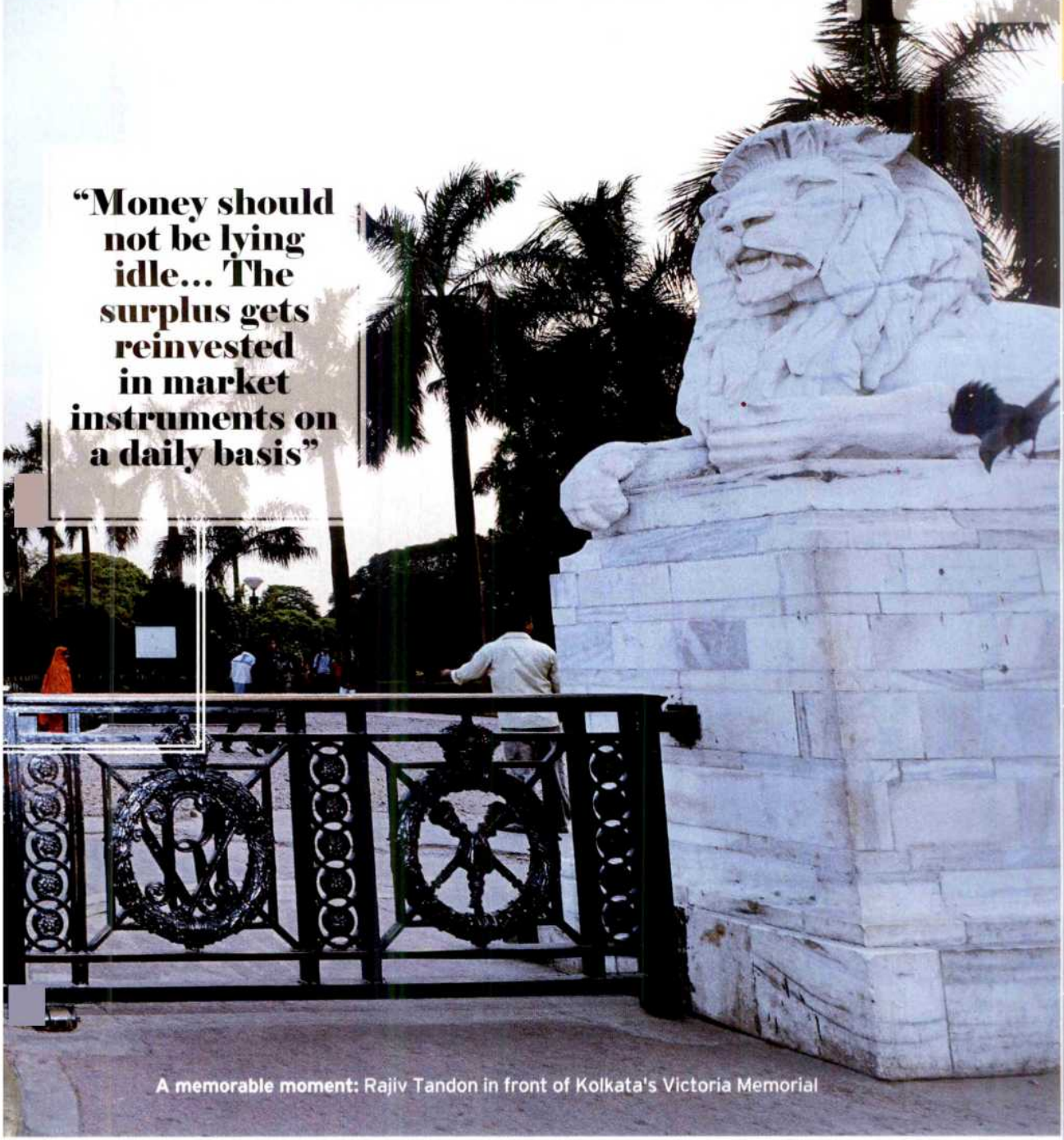
His Money

ITC's Rajiv Tandon has led several initiatives to cut costs, improve margins and boost earnings. By MANU KAUSHIK



Never Sleeps

"Money should not be lying idle... The surplus gets reinvested in market instruments on a daily basis"



A memorable moment: Rajiv Tandon in front of Kolkata's Victoria Memorial

SHEKHAR GHOSH/www.indiatodayimages.com

Overall Winner

Rajiv Tandon

Rajiv Tandon, Chief Financial Officer of ITC, has the memory of an elephant. Tandon, 59, personally interviews every candidate who applies to the Kolkata-based company's finance department. Over the years, he has recruited hundreds of management executives – mostly chartered accountants. He remembers more than 600 of them and what they said in their interviews. "Most of them work in different parts of the country," he says. "Even though I haven't met many of them in years, whenever I come across them, I easily recall their names."

A sharp memory comes in handy for Tandon as he juggles ITC's varied businesses that range from cigarettes and farm exports to hotels and information technology. Tandon, who joined the diversified company about 30 years ago and took over as finance chief in August 2009, is the overall winner in this year's *Business Today*-YES Bank Best CFO Survey. He also topped the category of sustained wealth creation among large companies.

₹2.6 trillion
ITC's current market value

Tandon took over as CFO at a time when the global economy was recovering from a slowdown. Most of ITC's businesses are recession-proof, be it cigarettes, consumer goods, agriculture or paper. "Except the hospitality business, none of the businesses was affected by the downturn," says Harsh Mehta, analyst with brokerage HDFC Securities.

ITC's performance on all key parameters – revenue, profit, profit margin, cash reserves and debt – has improved every year since Tandon assumed charge of the finance department. Net sales, for instance, have grown at a compound annual rate of 28 per cent since 2009/10.

Highlights of 2011/12

Dividend payout at 65% of consolidated net profit

Return on capital employed at 45.4%, versus 36.8 % in 2008/09

57% of revenue from non-cigarette businesses

Cash reserves have nearly tripled to ₹3,828.3 crore in 2012/13 from ₹1,348.6 crore in 2009/10. The ITC stock has delivered annual returns of 30.9 per cent (excluding dividend) since August 2009, compared with 6.75 per cent by the Bombay Stock Exchange's benchmark Sensex. Its market value has climbed to ₹2.6 trillion from about ₹94,000 crore. (One trillion equals 100,000 crore)

Mehta says one of Tandon's biggest contributions has been leading the non-tobacco consumer goods business toward profitability. "The company is burning lesser cash now (in the consumer goods business) and the focus has turned to making this segment profitable."

ITC entered the non-tobacco consumer goods segment in 2001 with the launch of branded food products. Many of them, such as Aashirvaad flour and Sunfeast cream biscuits, are now market leaders. However, even as revenue from the segment grew at a rapid clip, it posted losses for several years. In 2011/12, the segment reported a loss of ₹215.08 crore on revenue of ₹5,526 crore. The tide is turning now. For the quarter ended March 2013, the segment posted its first operating profit of ₹11.8 crore.

Should the company have opted for acquisitions to grow the consumer goods business and make it profitable faster? No, says Tandon. He says ITC will have to pay as much as ₹10,000 crore to buy a consumer goods' maker with an operating profit of ₹500 crore. This is because, typically, the enterprise value of an established company in the sector is 20 to 25 times its operating profit. The cost of servicing that ₹10,000 crore, in terms of the cost of capital, will be ₹1,300 crore a year. Building own brands is more cost-

28%
Compound annual growth in ITC's net sales since 2009/10

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BT-YES BANK BEST CFO SURVEY

Overall Winner

effective, he says.

Even after ITC has spread its wings, the cigarette business continues as the thrust area, as it generates the biggest chunk of revenue. In June last year, the company launched smaller cigarettes priced at ₹2 a stick. The decision coincided with a ban on gutkha, or chewing tobacco, in several states. "It was not intentional. The excise duty structure in India is such that there was an opportunity to launch smaller-size cigarettes," says Tandon.

Another interesting decision the finance department took was to stagger the increase in cigarette prices. In 2011/12, ITC raised cigarette prices by about 14 per cent over several months to offset an increase in excise duty. Previously, prices were increased in a single step, which affected sales volume. But due to staggered increases, sales volume actually rose last year.

Tandon says the biggest challenge has been the rapid growth of illegal tobacco products due to high taxes levied on the cigarette industry. Tobacco products that are either lightly taxed or evade taxes make up 86 per cent of the market, he adds.

Under Tandon, ITC's finance department has led several other initiatives to reduce the cost of operations and improve margins in the recent past. In the consumer goods business, the company previously had warehouses at locations where some redistribution was required. This added to the overall cost of the product. "We have reorganised the logistics network in a manner that redistribution has come down significantly," says Tandon. "Products are now going directly from factories to wholesalers. In cases where the buyers are big, shipments are going directly to customers from factories."

55-60%
Share of Aashirvaad atta in branded flour segment

Key Financials

Revenue
₹26,552 crore
▲18%

EBITDA
₹9,231 crore
▲20%

Net Profit
₹6,258 crore
▲25%

Return On Equity
▲35%

4mn
Farmers who us ITC's e-choupals sell their produ

The finance division also led the use of information technology (IT) in the hotels business. Tandon says rooms are a "perishable commodity" in the hotels business and the company can now track the availability of rooms at all its properties across the country. "This helps in revenue maximization. Also, hospitality is about customer experience and satisfaction. With IT intervention, we have better information about our customers and we can service them better."

Tandon, who is part of a 10-member committee at ITC which is responsible for strategic management, says the role of the CFO has changed since he started his career. The CFO is no longer a controller of finances but a business partner. "Besides the traditional finance job, I have to look for synergies between various businesses," he says. "Based on our interactions with outsiders, we share best practices with different business divisions within ITC. The finance function helps them achieve more transparency and a high degree of disclosures."

What are Tandon's mantras for managing money? Bringing efficiency to capital is important, he says. "Money should not be lying idle. Our cash balance is zero every day. We have a robust system of forecasting sales and we know our expenses. The surplus gets reinvested in market instruments on a daily basis." As a result, ITC's return on capital employed – a measure of efficiency in converting capital into profit – has improved to 45.4 per cent in 2011/12 from 36.8 per cent in 2008/09. "Shareholders look at how an organisation is exploiting the opportunities available. We are investing in value drivers which will create earnings growth for the future," he says. ◆

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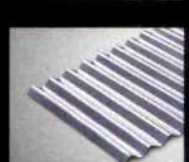

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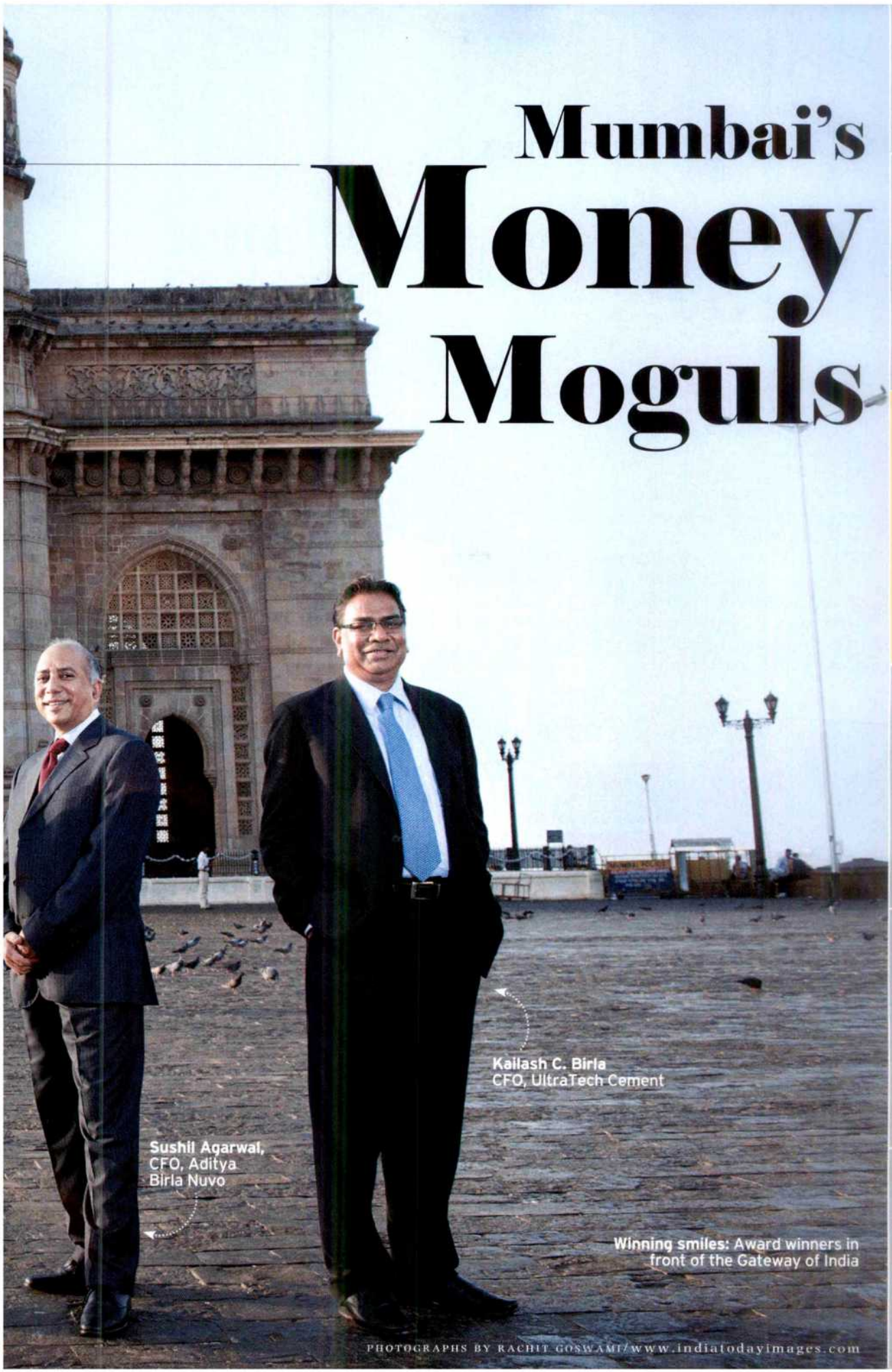
Mumbai's Money Moguls



Kailash C. Birla
CFO, UltraTech Cement

Sushil Agarwal,
CFO, Aditya
Birla Nuvo

Winning smiles: Award winners in front of the Gateway of India

PHOTOGRAPHS BY RACHIT GOSWAMI/www.indiatodayimages.com

BT-YES BANK BEST CFO SURVEY

Category Winners

Manage the 3 Ps

Best CFO of an MNC (Large)

We live in a volatile, uncertain, complex and ambiguous (VUCA) world. This means some of the previous management approaches and tools (for example, forecasts, forward plans) will be less successful, and corporations will need to embrace and embed new capabilities to compete and win. While the strategy to succeed in a VUCA world may differ across sectors, three key elements will be relevant in most circumstances. These I call the 3 Ps – "People, Processes, Portfolio".

PEOPLE: Getting our people to adopt a mindset that "change is the only constant" is a critical leadership responsibility. This is not jingoism but a genuine change in mindset, which embraces VUCA developments as opportunities instead of merely risk, and has to be led from the top.

PROCESSES: Internal processes need to adapt in terms of flexibility and agility. Taking an example from my industry (consumer goods), volatile commodity prices meant that our profit and loss forecasts were redundant within a matter of days/weeks. We had to adapt internal processes to halve the time taken from first information to action in the market.

PORTFOLIO: It is critical to regularly review and refresh the portfolio of categories and products with an eye on the present and the future. For instance, companies may ignore products at the mass end of the consumer pyramid in favour of premium products. A sharp rise in inflation could force consumers to down-trade, and companies that have ignored the value-for-money sector may end up on the losing side.

In summary, developing the 3 Ps and halving the time taken for all key decisions and actions will strengthen the ability of companies to navigate the VUCA world, and win.

By R. Sridhar, HUL

Revenue	₹23,436 cr	▲17%
Net Profit	₹2,791 cr	▲22%

Plan a Way Out

Best CFO of an MNC (Medium)

As the Chief Financial Officer and Chief Operating Officer of a leading express player, Blue Dart, I follow a very simple thumb rule – starting a month, quarter or year by assuming that it will be the most difficult one. This enables better planning and ensures prudent measures. It is not what one does but what the planning strategy is that makes one a winner.

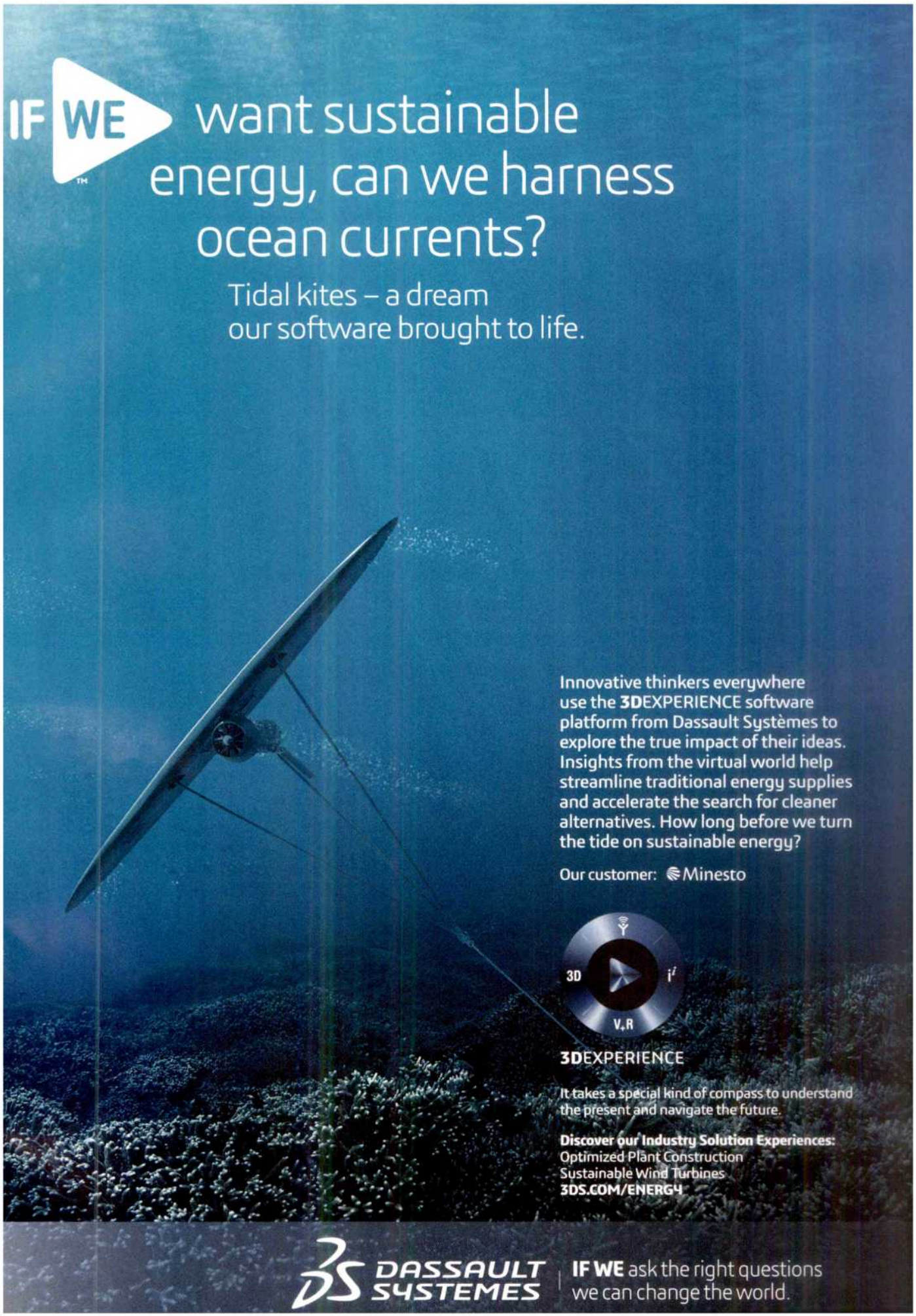
After successfully weathering the 2008/09 economic slowdown, we encountered the slowdown of 2012/13 and managed to sail through. Keeping the investment cycle and service quality, innovation, etc. ongoing was a result of starting from the worst so that you always land up with a good scenario.

Organisations need to carve a niche for themselves in a cut-throat market. One can be a niche player only if one offers something that is different, unique and relevant. A well thought-out business plan, close monitoring, continuous innovation, adopting prudent and conservative measures to mitigate costs, and customer centricity will help an organisation navigate uncharted waters. Tough times call for tough steps and being prepared with a Plan B or C is the key to bouncing back in a slowing economy. Remember if "Plan A" does not work, the alphabet has 25 more letters.

By Yogesh Dhingra, Blue Dart Express

Revenue	₹1,492 cr	▲29%
Net Profit	₹124 cr	▲31%

Figures for 2011/12; Source: Annual Reports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Category Winners

Work the Levers

Remarkable Leverage Management (Large)

Leverage management at UltraTech is part of the core strategy without in any way compromising growth and business leadership. We decide leverage based on capital structure, debt servicing, and investor requirement and then arrive at an optimum ratio. One of the cornerstones of our strategy is to maintain top credit ratings for both long-term and short-term debt, to ensure that we attract the best proposals from lending agencies.

Once we decide the quantum of borrowing, we opt for rupee or external commercial borrowing or international bonds. While we evaluate foreign currency borrowing, we consider the fully hedged cost for decision making. This approach eliminates foreign exchange losses as is the case with many Indian companies. Let me drive home two examples of leverage management.

First, on an acquisition: ETA Star Cement (West Asia) was acquired using a mix of internal accruals and debt. We opted for a higher leverage to acquire ETA due to a significantly lower interest cost and existence of natural hedge. Debt was largely through international borrowing.

Second, treasury management: We maintain appropriate treasury levels and earn competitive returns. Our treasury returns are among the best in the industry. Our treasury also helps us to defer borrowing when interest rates are not in our target range. As a result, our average cost of long-term borrowings has been below 8.5 per cent while short-term borrowings have been less than 8 per cent. The consolidated debt-to-equity ratio is 0.48, while the ratio net of treasury is 0.17.

By Kailash C. Birla,
UltraTech Cement

Revenue	₹19,236 cr	▲39%
Net Profit	₹2,403 cr	▲76%

The Dealmaker

Enhancing Competitiveness through M&As

Mergers and acquisitions have played a key role in the company's transformational journey from a manufacturing company in the late 1990s to a $4.5 billion conglomerate today. The underlying strategy of every merger or acquisition has been to acquire an established platform in a promising sector, followed by capturing growth potential, deriving synergies and achieving leadership position. Two of our recent acquisitions are worth mentioning – those of Columbian Chemicals and a controlling stake in Pantaloon Fashion. The Columbian Chemicals deal was not only aimed at becoming the world's largest carbon black player but also to derive synergy in logistics, sourcing and technology.

The Pantaloon deal provides us an established, popular and fast-growing platform. Additionally, the deal will result in synergies in terms of raw material sourcing, and rentals. These benefits will accrue gradually.

Today, each of our businesses has attained market leadership, led by our continuous thrust and investment in enhancing competitiveness even during tough times. This is evident from the fact that most businesses have been consistently outperforming the industry.

By Sushil Agarwal,
Aditya Birla Nuvo

Revenue	₹21,480 cr	▲20%
Net Profit	₹890 cr	▲8%

Figures for 2011/12; Source: Annual Reports

Fortune 500 favour BGRT

A world-class R&D and Lab facility endorsed by global occupants

s building will stand out as one of the most notable building
elopments in Bangalore"

Fred Ng
cutive Vice President
COM, Hong Kong

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Category Winners

For the complete columns go to www.businesstoday.in/cfos2013

Stay in Shape

Consistent Liquidity Management (Large)

We are passing through a phase of economic turbulence that has severely tested our business plans shaped in the post-crisis period of 2009-2011. Back then, it was believed that India got past the aftermath of global economic turmoil of 2008 almost unscathed thanks to its prudent fiscal policy, robust business models, mature capital markets and economic potential. Frankly, corporate India did not anticipate its growth engine could slow down so significantly in just a year or two and that risk capital would make such a hasty retreat.

Since there are no "ifs" and "buts" in the real world and the present reality is strikingly different, we are in the process of realigning our plans to the new business environment. New conditions demand new approaches and hence we are retooling our strategies. While some of our businesses are reviewing business value propositions, some others are relocating their operations to more cost-efficient locations. Many are reassessing their supply chain efficiencies and time-to-market plans. Some are taking their business global and to relatively more rewarding geographies.

New positioning, additional product functionalities, revised execution strategies, larger customer accreditations, and multiple alliances are our newly coated business plans. It is recognised in board rooms that it is important to stay positive during the downturns and be in reasonably preserved shape for the uptick as and when growth conditions return.

By R. Shankar Raman, Larsen & Toubro

Revenue	₹64,313 cr	▲23.5%
Net Profit	₹4,691 cr	▲5%

Be Green, It Pays

Commitment to Triple Bottom Line

Being socially responsible is not new to Godrej. We have been at the forefront of philanthropic and social activities for several decades.

We crafted a long-term vision called "Godrej Good & Green" for playing an active part in creating a more inclusive and greener India. By 2020 we aspire to: (a) Train one million youth in skilled employment. (b) Achieve zero waste, be carbon neutral, have positive water balance and 30 per cent renewable energy. (c) Have a third of our revenue comprising good and/or green products and services.

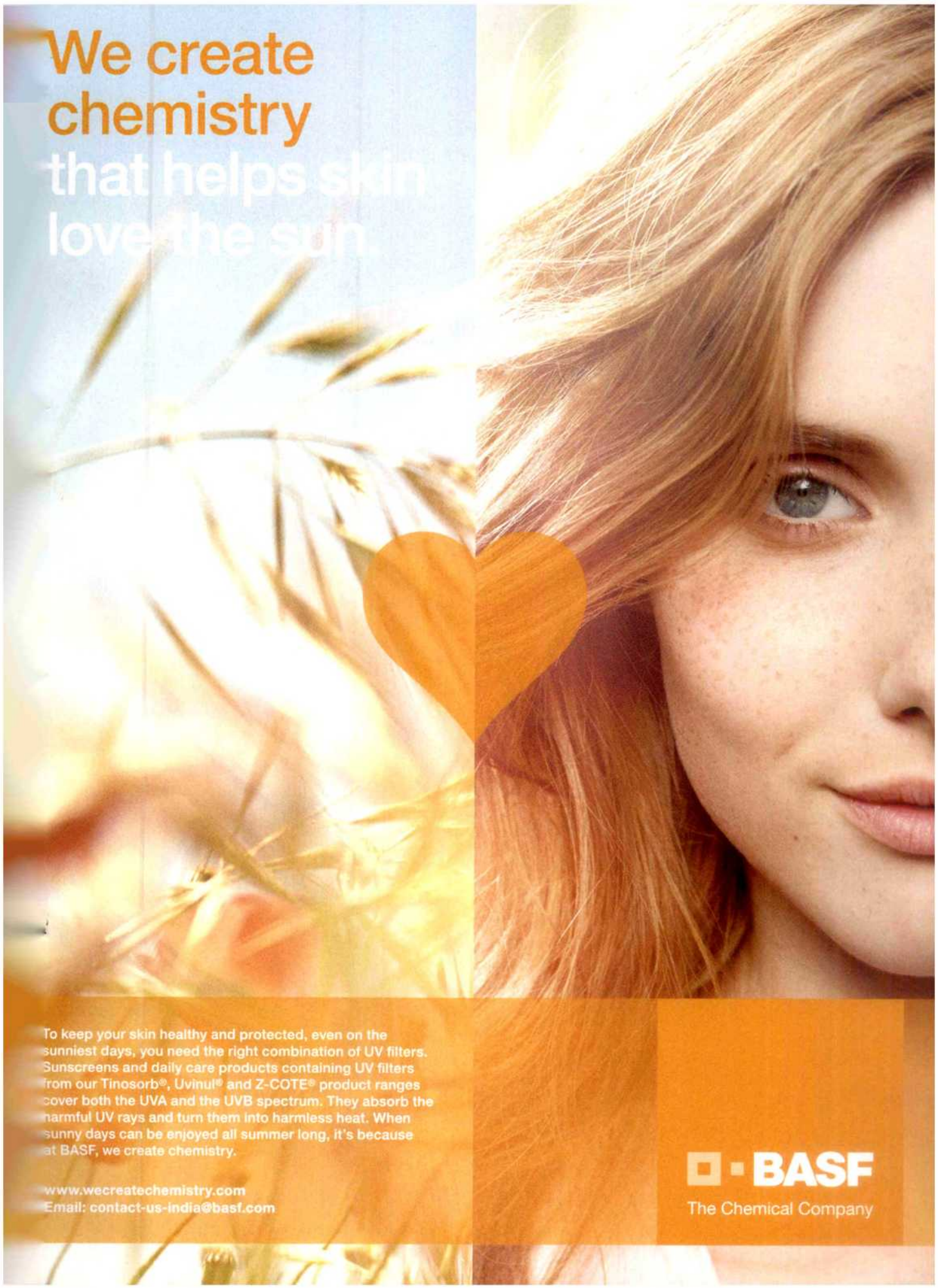
These goals are a crucial part of our business planning discussions and we have made specific commitments towards achieving them. We have cross-functional teams from supply chain, marketing, R&D and finance that work on improving our gross margins. These teams explore energy conservation and waste elimination options and have generated savings in excess of ₹200 crore over the past three years, a win-win on both the business and Good & Green fronts.

Another great example is the cross-functional initiative led by the finance team to optimise capital employed and enhance economic value added. By encouraging suppliers to switch to paperless processing, we have ensured a faster transmission of funds and in return, better credit terms for the company, another win-win. Our teams continue to look for opportunities, both big and small, to be Good & Green. We have made a good start towards realising our Good & Green ambitions and are excited about the potential it holds.

By P. Ganesh, Godrej Consumer Products

Revenue	₹4,866 cr	▲32%
Net Profit	₹727 cr	▲41%

Figures for 2011/12; Source: Annual Reports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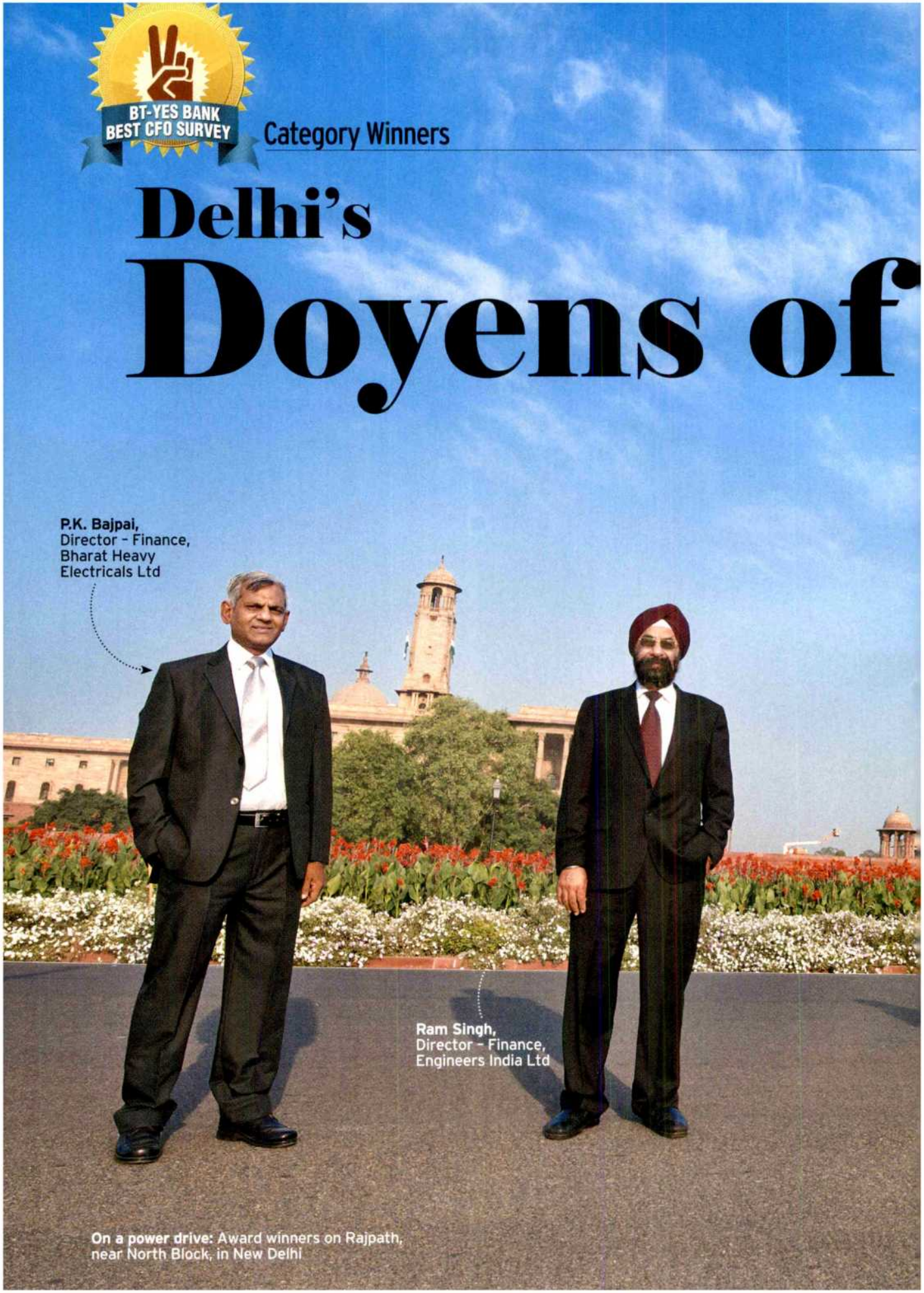
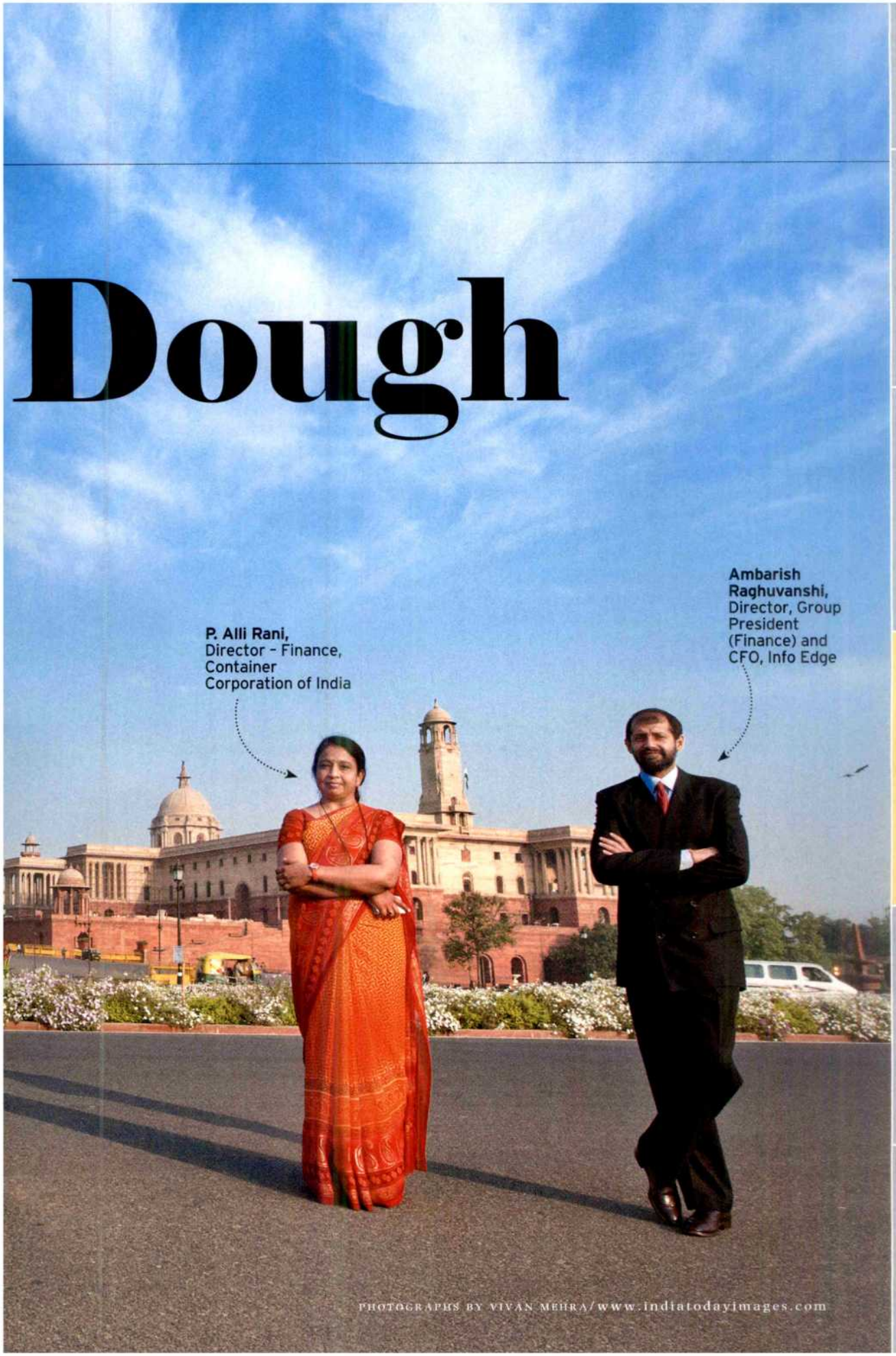
Delhi's Doyens of



On a power drive: Award winners on Rajpath, near North Block, in New Delhi

Dough



PHOTOGRAPHS BY VIVAN MEHRA/www.indiatodayimages.com

BT-YES BANK BEST CFO SURVEY

Category Winners

Best CFO of a PSU (Large)

Sell the Story

Across the globe, today's CFOs are juggling more balls in the air and that, too, in front of an audience which is more demanding and knowledgeable than ever before. Never before has it been more complex, multi-faceted and rewarding. Changing regulations, enhanced disclosure norms, greater shareholder involvement, and a subdued business environment have dramatically changed the role of the CFO, especially of state-run organisations such as Bharat Heavy Electricals (BHEL).

BHEL's major challenges in the previous fiscal year emanated from a variety of external factors. The challenge was to at least maintain the top line, if not grow it, and sustain the bottom line. An even greater challenge was to manage liquidity with minimum borrowing cost.

Limited receipt of advances due to constrained order inflows to BHEL during 2011/12 and 2012/13 did impact the working capital position. Real time monitoring of inflows and outflows through e-banking resulted in fine planning of cash flows and also helped to close the fiscal year with a healthy cash and bank balance. Adoption of innovative cash and financial management techniques resulted in earning average interest yield significantly more than the market rate and also helped in bringing down the average borrowing cost below industry average.

Understanding the "emotional drivers" of different groups, selling changes to staff, board members and to stakeholders is not easy for any CFO, especially of a state-run company. I believe an effective CFO needs to exhibit confidence borne from a healthy self-belief, paint a clear vision of what the organisation and finance team can achieve, and determine what legacy he wishes to leave with the organisation.

By P.K. Bajpai, BHEL

Revenue	₹49,627 cr	▲14%
Net Profit	₹7,087 cr	▲17%

Spot the Opportunity

Best CFO of a PSU (Medium)

Engineers India operates in a highly competitive and complex hydrocarbon industry. The economic slowdown and stagnancy in the hydrocarbon sector in India made EIL's journey very challenging. We saw the difficult times as an opportunity to foray into new businesses and to expand overseas.

By Ram Singh, EIL

Revenue	₹3,723 cr	▲31%
Net Profit	₹644 cr	▲21%

Figures for 2011/12; Source: Annual Reports

For me, the main challenge was to manage the unlimited opportunities in a competitive environment and manage profitability. This was ensured through a flexible bidding policy for securing business and driving cost efficiencies across activities. Aggressive treasury management led to post-tax returns of over 10 per cent on mutual fund investments. We have also set an exemplary benchmark of mitigating project risks through a robust enterprise risk management framework.

Today's world of finance is diverse, complex and multi-faceted. Against this backdrop, the CFO's role takes on critical importance. A proactive approach, analytical skills and foresight help manage potential threats to the organisation's growth. Top priority is given to optimisation of returns for sustainable business growth.

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Category Winners

Take a Stand

Consistent Liquidity Management (Medium)

The important point to note about managing cash flow, working capital or liquidity is that it is not about the finance area alone. It is an all-pervasive ethos that spans across the sales function and finance. When times are tough, clients resort to one of the two or both: they ask for looser credit/payment terms and they ask for discounts. We stuck to our payment terms in 2012/13, because any dilution of these terms becomes the norm for the future. This view comes from a long-term approach to business and the confidence to walk away from some deals.

What has also helped is an improvement in our competitive position over the past few years. This allows us the flexibility to set our terms together with pricing, since both of these are indexed to the competitive position. At the same time, we have got better payment terms from our business partners and vendors, leading to longer payment cycles.

Our biggest cost element is employee-related expenses. We have not compromised on paying our associates on time, whether in the form of fixed salaries or in paying sales incentives since employee morale is far more important than any benefit to be derived by prolonging payment cycles. So, in summary, set the terms of trade early, be a market leader (great if you get there), align the sales team performance with the terms of trade, maintain discipline and do not dilute standards. And finally, talk the same language.

By Ambarish Raghuvanshi, Info Edge

Revenue	₹392 cr	▲21.5%
Net Profit	₹103 cr	▲64%

Walk the Tightrope

Best Woman CFO

Container Corporation of India (Concor) does not fit the common description of a government undertaking. It is the market leader and the most profitable player in a sector that has 15 competitors. It has a huge shareholding by foreign institutional investors. And it holds the record in the logistics sector for per employee productivity. For the CFO, this is a tough environment to work in where, while the expectations are pegged at high levels that prevail in the private sector, the working strategies have to satisfy government guidelines and the concept of doing business with the taxpayer's money.

This is not much different from tightrope walking. Add to this the turbulent business environment during the past four years wherein the tightrope walking got more perilous with the rope itself swaying dangerously in the stormy world of global trade. Identifying income streams in new businesses, balancing the spend, guessing margins in a new territory, and these to be done while fighting competition in a sector perceived as the star sector of the recovery phase has been tough.

The CFO has to be farsighted to accurately identify and factor in future profits into investment decision making. No wonder, risk management has been made part of the CFO's portfolio at Concor. This is exactly what keeps the CFO going, ready to take the blame but enjoying the limelight when results reflect their contribution in a job well done in a tough environment and the admiring glances say, "We knew we could rely on you."

By P. Alli Rani, Concor

Revenue	₹4,101 cr	▲5%
Net Profit	₹866 cr	▲21%

Figures for 2011/12; Source: Annual Reports

For the complete columns go to www.businesstoday.in/cfos2013

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BT-YES BANK BEST CFO SURVEY

Category Winners

Kolkata's Captains of Cash

It's time to sail: On the Ganga river, near Vidyasagar Setu in Kolkata

PHOTOGRAPHS BY SHEKHAR GHOSH/www.indiatodayimages.com

BT-YES BANK BEST CFO SURVEY

Category Winners

Adapt to Changes

Best Transformation Agent (Large)

Nearly two years ago, the auto sector was booming. Demand for automotive batteries picked up so fast that we struggled to meet the requirements of carmakers. We cut down on replacement volumes due to capacity constraints. Our market share in the replacement segment fell to 25 per cent from 35 per cent before.

In 2011, we expanded capacity, which enabled Exide to focus on the replacement market. We have invested close to ₹600 crore on capacity expansion.

Now the trend has reversed. We have capacity in place but demand from automakers is down. The replacement market continues to grow 15 per cent. We are trying to regain market share in the replacement segment. Our market share is now over 30 per cent.

We have recently tied up with US-based East Penn Manufacturing Co. and Japan's Shin-Kobe Electric Machinery Company to improve processes, designs, and quality control. We have also acquired two units for home UPS systems in Uttarakhand since December 2011 to gain market share in the growing segment.

— AS TOLD TO MANU KAUSHIK

A.K. Mukherjee,
Exide Industries

Revenue	₹5,319 cr	▲11%
Net Profit	₹446 cr	▼28%

Unlock Hidden Value

Sustained Wealth Creation (Medium)

Emami has been able to enhance shareholder wealth over the decades thanks to a differentiated business model. The initial investors, who invested ₹4,000 for 400 shares (in 1979/80), are now owners of shares worth over ₹3.36 crore. The stock has delivered 300 per cent returns to institutional investors in the past three years. Emami was listed on the Calcutta Stock Exchange around 1980. However, its market value was very low and the stock wasn't frequently traded as Emami was a closely held company. We came out with a follow-on public issue in 2005, which made Emami a widely held company.

The big turning point for Emami came in 2008/09 with the acquisition of Zandu Pharmaceutical. Emami's turnover at the time was around ₹600 crore and market capitalisation was about ₹1,500 crore. Zandu was almost one-fourth of our size. Still, we assigned a valuation of ₹1,350 crore for Zandu. This was because we envisaged a great business potential and were confident of converting this acquisition into a success. We changed Zandu's manufacturing processes from manual to mechanical, from traditional to scientific, and merged its consumer goods business with Emami. In the first full year of operation, Zandu's operating profit grew three-fold.

Emami's market value is now around ₹9,200 crore. Last year, our dividend payout was about 50 per cent. On a normalised level, we have maintained a dividend payout ratio of 25-30 per cent for the past three years.

— AS TOLD TO MANU KAUSHIK

Naresh Bhansali,
Emami

Revenue	₹1,454 cr	▲16.5%
Net Profit	₹259 cr	▲13%

Figures for 2011/12; Source: Annual Reports

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BT-YES BANK BEST CFO SURVEY

Category Winners

Best Transformation Agent (Medium)

Reduce Debt Levels

Remarkable Leverage Management (Medium)

The tea business is cyclical in nature. In the past decade, we have seen both the best and worst of times. But some smart steps we took in the past three years have resulted in a healthy balance sheet, growth in bottom line and spreading of risks.

Earlier, we were dependent on one locality (Assam). We acquired three companies in Uganda, Vietnam and Rwanda between 2009 and 2011. In recent years, we have been trying to minimise the risk of tea price fluctuation. In our own plantations, the cost structure is fixed. So any fall in prices hits the margin instantly. We are now buying leaves from small growers. We have a steady margin of 20 per cent in this segment.

Kamal Kishore Baheti,
McLeod Russel

Revenue	₹1,445 cr	▲14%
Net Profit	₹288 cr	▲17%

These steps have helped the company reduce its debt levels significantly, while increasing the asset portfolio. Today, our gross debt stands at ₹240 crore. Our net debt is at ₹40 crore. That's because we have ₹170 crore of tax-effective deposits with NABARD and some cash reserves. The debt-to-equity ratio is 0.15, much lower than 1.1 in 2004. We acquired Williamson Tea in 2005. We took on ₹200 crore of debt. Within a year, we reduced the debt by ₹140 crore through internal resources and a share sale of $20 million to institutions. Since then, there's no looking back.

— AS TOLD TO MANU KAUSHIK

Think Long Term

Divi's Laboratories has transformed over the past 18 years. From being just a research outfit, the company now has multiple manufacturing facilities for niche pharmaceutical ingredients in the generic and custom synthesis segments with strong presence in advanced markets.

When India signed to be a member of the World Trade Organization's convention on patents in 1995, Divi's realised the potential of working in the patent-compliant regime. The company conformed to intellectual property from the inception of its manufacturing operations in 1995.

The company started off making only patent-expired active ingredients. After proving its skills in process chemistry, the company began making ingredients for patented products under custom synthesis for overseas pharmaceutical innovators.

Although the industry had time until 2005 to conform to the new patent regime, we consciously avoided short-term temptations. This gave us the early-entry advantage. Over the years, the relationship with large pharmaceutical companies grew and resulted in good business for us in the custom synthesis space.

The past two years have seen significant investment towards capacity additions at Divi's special economic zone in Visakhapatnam where we have also set up a unit for several new products. The focus on cost efficiency and objective capacity expansion over the years helped the company to be debt-free and competitive. The focus has also been on niche products and exports to advanced markets.

By L. Kishore Babu,
Divi's Laboratories

Revenue	₹1,864 cr	▲42%
Net Profit	₹533 cr	▲25%

Figures for 2011/12; Source: Annual Reports

For the complete columns go to www.businesstoday.in/cfos2013

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How We Did It

The search for India's best CFOs begins from another elite list – the BT500 listing of India's biggest corporations by market capitalisation. One exception is made here. For the best woman CFO category, we consider the broader listing of the BT1000 to get more names in because the number of women leading large companies' finances is abysmal.

There are a total of 16 awards in 10 categories. The companies are split into two groups by size. Companies with net sales higher than ₹2,000 crore in 2011/12 are called large companies, and the rest, mid-sized companies. For state-run companies, this threshold is ₹10,000 crore.

The quest to find the winners goes through three exhaustive phases. BT's knowledge partner, YES Bank, is instrumental in executing the survey. In phase one, the consolidated financials of the BT500 over the past three years are pulled out from the database Capitaline Plus. These are then analysed across multiple metrics such as market value to book value, market capitalisation, return on equity, working capital cycle, and many others. Companies are eliminated if the CFO has changed within three years, unless internally promoted. Even here, the CFO should have been with the company for more than three years. A peer set comparison is done for all sectors, and top performers are short-listed for phase two.

In phase two, market research firm Ipsos India undertakes a perception survey of fund managers and brokers to assess factors such as corporate governance practices and stock performance. This year, we also surveyed chartered accountants, which was a suggestion from last year's jury. A separate panel assesses the Triple Bottom Line (or corporate social responsibility) category.

This year's jury meeting – phase three of the survey – was chaired by Chitra Ramkrishna, Managing Director and CEO of the National Stock Exchange. Other jury members were Richard Rekhy, CEO of KPMG India; Naresh Takkar, Managing Director and CEO of ICRA; former CFO of Tata Consultancy Services S. Mahalingam; and N.R. Bhusnurmath, Professor of Finance and Chairman of Accounting and Finance at Management Development Institute, Gurgaon. The meeting was moderated by *Business Today* Editor Chaitanya Kalbag, with Mick Gordon, CEO of Ipsos India, and Amit Kumar, Senior President and Country Head, Corporate and Institutional Banking, YES Bank, providing technical assistance.

This year's jury also had several good suggestions to make. And again, dear reader, you will have to wait for next year's outcome to find out what they are. One thing is certain, though. The suggestions will make the survey stronger than ever. ◆

Power-packed: (From left to right) Amit Kumar, Mick Gordon, S. Mahalingam, Chitra Ramkrishna, Chaitanya Kalbag, Naresh Takkar, N.R. Bhusnurmath, Richard Rekhy

SHEKHAR GHOSH

Royal Flush

SANTOSH

Tax authorities and minority shareholders are worried over rising royalty payments by Indian subsidiaries to their foreign parents.

By MANU KAUSHIK

When Swiss building materials giant Holcim proposed to more than double the royalty fee from its Indian subsidiaries last October, some independent board directors strongly opposed the move. They said the hike was too steep and would cut into the net profit of the domestic units, ACC and Ambuja Cements. Holcim argued the move was justified because it was sharing key research and technical know-how which led to an improvement in the Indian units' operations. The matter was referred to an audit committee which recommended the proposal be put before shareholders for approval.

In December, the boards of both companies approved a proposal to increase the royalty to one per cent of net sales. It was less than the recommended two per cent, but up from ACC's 0.6 per cent and 0.7 per cent for

Ambuja Cements. Although more than 80 per cent of the minority shareholders who voted opposed the revised hike, the resolution sailed through because Holcim was a majority stakeholder in ACC with 50.3 per cent and in Ambuja Cements with 51.9 per cent. "Multinationals want to extract the maximum resources out of their global subsidiaries," says Mansingh L. Bhakta, a former Ambuja Cements director who opposed the hike.

Holcim is one of many multinationals who have jacked up royalty rates from local subsidiaries ever since the Indian government scrapped a cap on royalties to overseas parents about three years ago. With several global companies such as Maruti Suzuki and Hindustan Unilever Ltd (HUL) forking out larger payments to their parents, shareholders are furious. They say the higher royalties are cutting into net profits and, in effect, reducing their dividend payouts. "Royalty rates have risen sharply after de-regulation of norms, giving the parent company ample scope to impact the profitability of their Indian subsidiaries while benefiting themselves at the expense of minority investors," says Nick Paulson-Ellis, India head of Mumbai-based brokerage Espirito Santo Securities.

Indian units of multinationals, like subsidiaries elsewhere in the world, pay royalties to their foreign parents for various reasons. For instance, auto and capital goods makers have to buy technical know-how and support through collaboration. Drug companies pay for marketing rights, while consumer goods firms fork out money for brand equity. Before April 2010, royalties were capped at five per cent of domestic sales in case of technical collaboration and two per cent for the use of a brand name and trademark. However, the government scrapped these limits with retrospective effect from December 2009 in a bid to promote foreign direct investment and technology transfer.

Since then, almost every multinational unit has increased royalty payouts to its foreign parent. Espirito Santo estimates the payments of 25 top multinationals – including Maruti Suzuki, HUL, Nestle India and Colgate-Palmolive India – have jumped 140 per cent. Maruti's royalties to Suzuki Motor Corporation leapt almost three times from ₹677.7 crore in 2008/09 to ₹1,803.1 crore in 2011/12, which was 110 per cent of its profit after tax.

In the past five months alone, four large multinationals have increased royalty rates despite resistance from minority shareholders. HUL decided in February to raise its royalty from 1.4 per cent of turnover to 3.15 per cent in a staggered manner by March 2018. HUL's stock tanked over seven per cent in two trading sessions following the announcement. A Nomura Holdings note said the increase in royalty pay-

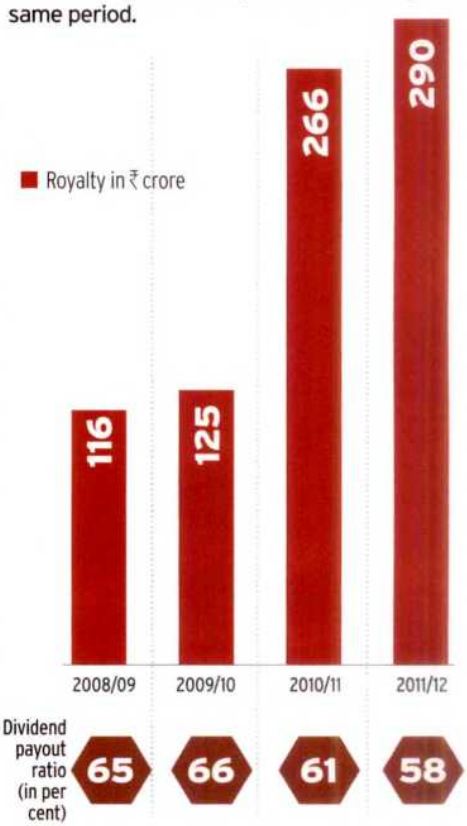
Uneven Balance

WHAT IT DID

Starting February 2013, Hindustan Unilever Ltd (HUL) entered into a new agreement with parent company Unilever on providing technology, trademark licences and other services. The deal allowed HUL to raise royalty payments in a phased manner from 1.4 per cent of turnover to 3.15 per cent by March 2018.

WHAT'S THE PROBLEM

HUL has increased royalty payments over the years for transfer of technology but its dividend payouts have gone down during the same period.



In 2012/13, HUL's dividend payout went up to 137.6 per cent because the company announced a special dividend.

Dividend payout ratio refers to the percentage of net income paid to shareholders as dividend.

Source: CMIE Prowess, Institutional Investor Advisory Services

For previous stories on royalty payments, go
www.businesstoday.in/archives-jun2

Drain of Wealth

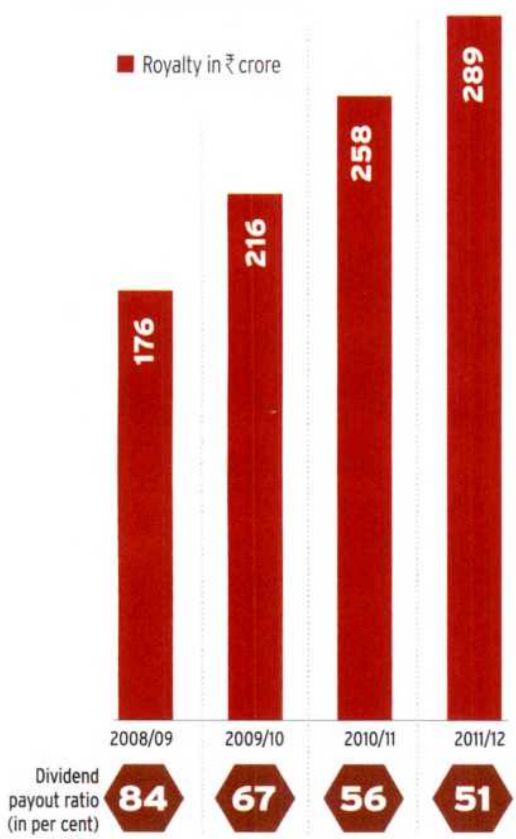
WHAT IT DID

In March, the Nestle India board approved an increase in royalty rates from 3.5 per cent to 4.5 per cent of sales in a staggered manner. The company will hike royalties by 0.20 per cent a year over five years starting January 2014.

WHAT'S THE PROBLEM

Nestle India is increasing royalty payments at a time when its dividend payout is sliding.

Investors have also raised concerns about the role of independent directors on the board who voted for the increase in royalty payments. They said two independent directors did not fit the definition of 'independent' because one had been on the board for 34 years and the other for 20 years. The listing agreement recommends the tenure of independent directors should not exceed nine years.



Source: Institutional Investor Advisory Services

"Royalty rates have risen sharply after de-regulation of norms, giving the parent company ample scope to impact the profitability of their Indian subsidiaries"

Nick Paulson-Ellis, India head, Espirito Santo

ments would affect HUL's margins in the next couple of years. An HUL spokesperson justified the increase, saying the Indian unit was enjoying the benefits of a growing stream of new products from parent company Unilever in fast-growing segments such as facial cleansing, hair conditioners and fabric conditioners. Manish Gunwani, senior fund manager at ICICI Prudential AMC, says it is difficult for companies to justify the increase in royalties. "Cement-making processes are fairly standard. There's no cutting-edge technology that can be introduced to the existing processes," he says.

Experts say royalty payouts are perfectly legitimate, but access to better technology and global brand names should lead to a comparable improvement in sales or profits. "That's rarely been the case. All MNCs are doing is increasing royalty payment without significant improvement in their performance," says Amit Tandon, founder of Institutional Investor Advisory Services (IIAS), a corporate governance advisory. An analysis by IIAS shows that 25 top multinationals have underperformed BSE 100 companies on parameters such as net sales and net profit growth in the past five years. For instance, BSE 100 companies registered average net sales growth of 93.7 per cent between 2008 and 2012 while the multinationals grew 78.1 per cent. HUL, the second-largest multinational in

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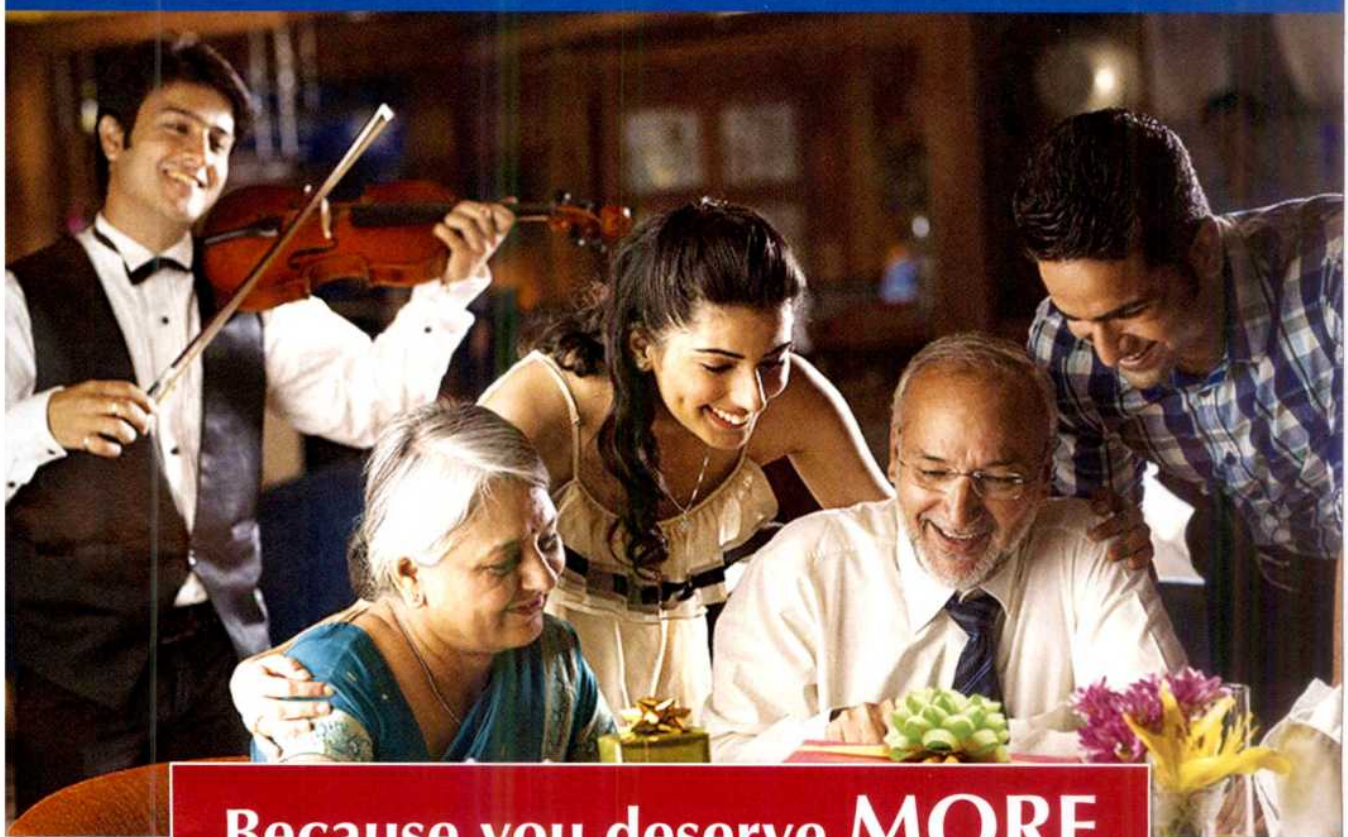

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terms of royalty remittances, has lagged its Indian peers in net sales growth over the past five years.

Already, the rise in royalty is hurting minority shareholder dividend payouts. According to the IIAS analysis, the average royalty paid by the 25 companies more than doubled between 2008 and 2012 but dividends increased just 1.3 times. Some companies such as 3M India, Whirlpool India and Asahi India Glass continue to pay royalty but have not paid any dividends since 2008. "In most cases, the promoter group is given preferential treatment at the cost of other shareholders. Earlier, the scope was limited but now companies are charging royalty without any restrictions. Companies listen only when minority shareholders revolt," says Raamdeo Agrawal, Co-founder and Director at Motilal Oswal Financial Services.

Higher royalty payouts also hurt tax collections. Companies include royalty payments as an expenditure item on their account books, which reduces the operating profit figure and, in effect, lowers the overall tax liability on profits. Moreover, royalties are taxed at source at 25 per cent, but India has double taxation avoidance treaties with 84 countries, which reduce the overall tax burden on foreign firms. In the case of Holcim, the treaty with the Swiss government caps the tax on royalty at 10 per cent. On the other hand, it taxes corporate income at 33.99 per cent. With companies renewing their agreements, tax authorities are keeping a close watch on these transactions. According to media reports, the income tax department has asked Maruti to restore to the balance sheet a large part of the ₹677.7-crore royalty it paid to Suzuki in 2008/09, arguing that Maruti paid the royalty for using and promoting the lesser known brand Suzuki.

"The global slowdown is forcing foreign parents to take away money from their subsidiaries"

Debashish Mallick, MD & CEO, IDBI Asset Management

Analysts are particularly concerned with the way companies decide on royalty. They say many multinationals do not abide by Indian transfer pricing regulations which mandate an arm's length price (ALP) be calculated for royalty agreements. An ALP transaction is one where buyers and sellers act independently and have no relationship to each other. However, most companies have poor disclosure mechanisms on the benefits they are likely to get from parents' services, especially in the case of technology transfer. "In the absence of details, shareholders feel cheated as they are not able to understand the benefits of the royalty agreements. Related party transactions should be disclosed so that there's no conflict," says Paulson-Ellis of Espirito Santo. Maruti, ACC and Ambuja Cements did not respond to email queries.

Debashish Mallick, CEO and Managing Director of IDBI Asset Management, says the global slowdown is forcing foreign parents to take away money from their subsidiar-

Other MNCs Paying Substantial Royalty

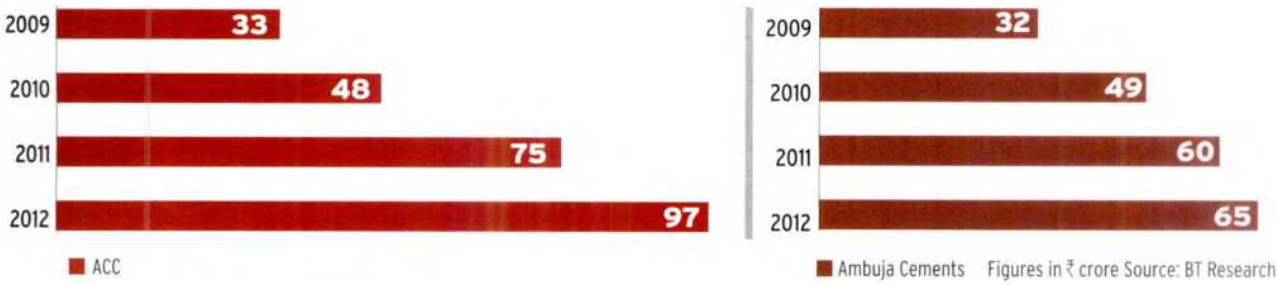
	Maruti Suzuki India	ABB	Bosch Ltd	Glaxosmithkline Consumer Healthcare	Colgate-Palmolive (India)	Procter & Gamble Hygiene & Health Care
ROYALTY						
2011/12	1,803	249	148	106	141	63
2008/09	678	125	51	70	72	42
Royalty as a percentage of profit after tax*	110	177	15	65	32	35

*For 2011/12; In ₹crore

Source: CMIE Prowess, company annual reports

Royal Jump

ACC and Ambuja Cements have seen a significant jump in royalty payments in the form of technical knowhow fee to parent Holcim in the past few years



Figures in ₹ crore Source: BT Research

ies. "This is evident in geographies where the subsidiaries are performing well," he says. "My biggest concern is that this sucking out of funds should not reach a point where it starts to hurt local subsidiaries." IDBI AMC has ₹6,250 crore of assets under management and three of its equity funds have significant exposure to large multinationals. Mallick is referring to Unilever's royalty hike for its Indian and Indonesian arms. Last December, Unilever Indonesia increased the royalty from 3.5 per cent to eight per cent.

Authorities are scrutinising the role of independent directors in decisions to hike royalty rates. The board of directors, both executive and independent, is crucial to any resolution on royalty because it clears such moves. Take Nestle India. Recently, the Nestle board approved an increase in royalty payment from 3.5 per cent to 4.5 per cent of sales over a five-year period starting 2014. A Nestle India spokesperson told *Business Today* the royalty review was substantiated by a McKinsey & Co study reviewed by two Indian firms – Bansi S. Mehta & Co and KPMG. "The increase is based on the lower limit of the ranges established by the two Indian firms and is in line with the erstwhile guidelines of the Government of India," the spokesperson said.

Shardul Shroff, Managing Partner at Amarchand and Mangaldas and Suresh A. Shroff & Co., a law firm that advised Nestle India on the issue, says the company followed rigorous procedure to decide on 4.5 per cent. "They had a good justification because India lags behind other subsidiaries (of Nestle S.A.) in some different jurisdictions in terms of royalty payouts."

But investors were not satisfied. They questioned the role of two independent directors on the Nestle India board. At the time of voting, Nestle's board had eight directors – four executive and four independent. With the executive directors recusing themselves from the vote, only the independent directors voted – all of them in favour of the hike in royalty. Investors say two independent directors, who voted for the increase, do not fit the definition of 'independent' because the listing agreement recommends their tenure should not exceed nine years. The provision is not mandatory. One independent director has been on the board for 34 years and the other for 20 years.

Experts are pinning their hopes on the Companies Bill 2012 which they say will make the process of increasing royalties more transparent. The bill will make it mandatory for a parent company to seek the approval of 75 per cent of voting members while abstaining from voting in such resolutions. The draft bill also mandates a maximum term of 10 years for independent directors. The bill was cleared by the Lok Sabha last December and is pending in the Rajya Sabha. J.N. Gupta, Managing Director of corporate governance research firm Stakeholders Empowerment Services, says "the rush to increase royalty is proof that companies are afraid of new regulations that will make it difficult for promoters to charge such fees arbitrarily".

But with investor fury over royalty payments rising, it may take more than just a bill to calm shareholders. ◆

Defending Nestle: Shardul Shroff, Managing Partner, Amarchand Mangaldas and Suresh A. Shroff & Co, says Nestle followed rigorous procedure to decide on royalty

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Lalit Patel heads the India operations of Bash Gaming, which developed *Bingo Bash*, one of the mos successful games to come out of India

PHOTOGRAPHS BY DEEPAK G. PAWAR

Ahead of The Game

Finding few takers within the country, Indian mobile gaming companies change tack to woo the world. By **NANDAGOPAL RAJAN**

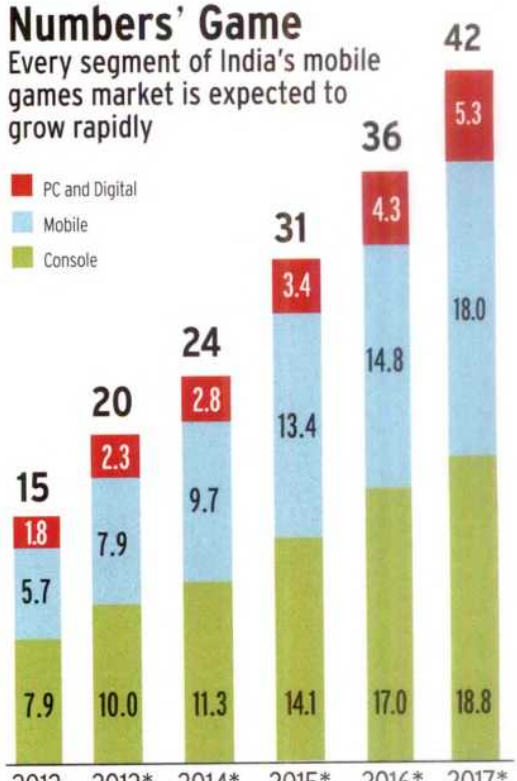
It's one of the most successful mobile games to come out of India. So successful that the company behind it renamed itself Bash Gaming after the hit product, *Bingo Bash*. The multi-player Bingo game, launched on Facebook about three years ago before it went mobile, has 24 million downloads under its belt already and expects to post revenues of $55 million this year. "We did the right thing by taking the game mobile before others thought of it. Soon it became viral and we started raking in huge revenues," says Lalit Patel, who heads the company's Indian operations out of Bangalore.

Bingo Bash may be the most successful, but it certainly isn't the only mobile game in the international market developed by Indians. The global success of the game – also popularly called Tambola – has prompted many of the country's more than 160 gaming companies to change tack and tap the global market instead of just focusing on domestic customers. India's gaming sector has been on the fringes of the international gaming market for about two decades. Until recently, it mostly focused on creating content for larger international gaming companies and rarely ventured into developing console or computer games itself because of the big bucks involved. But with the growing popularity of smartphones, over 100 companies have cropped up to create just mobile games which they can crank out for as little as $5,000 a piece compared with more than $50 million for big console games such as *Final Fantasy*.

Despite the rush into mobile gaming, many new entrants real-

Numbers' Game

Every segment of India's mobile games market is expected to grow rapidly



* Projections; Figures in ₹ 1,000 crore; Source: FICCI-KPMG Indian Media and Entertainment Industry Report 2013

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The US accounts for 46 per cent of Real Steel's business while India comprises under one per cent

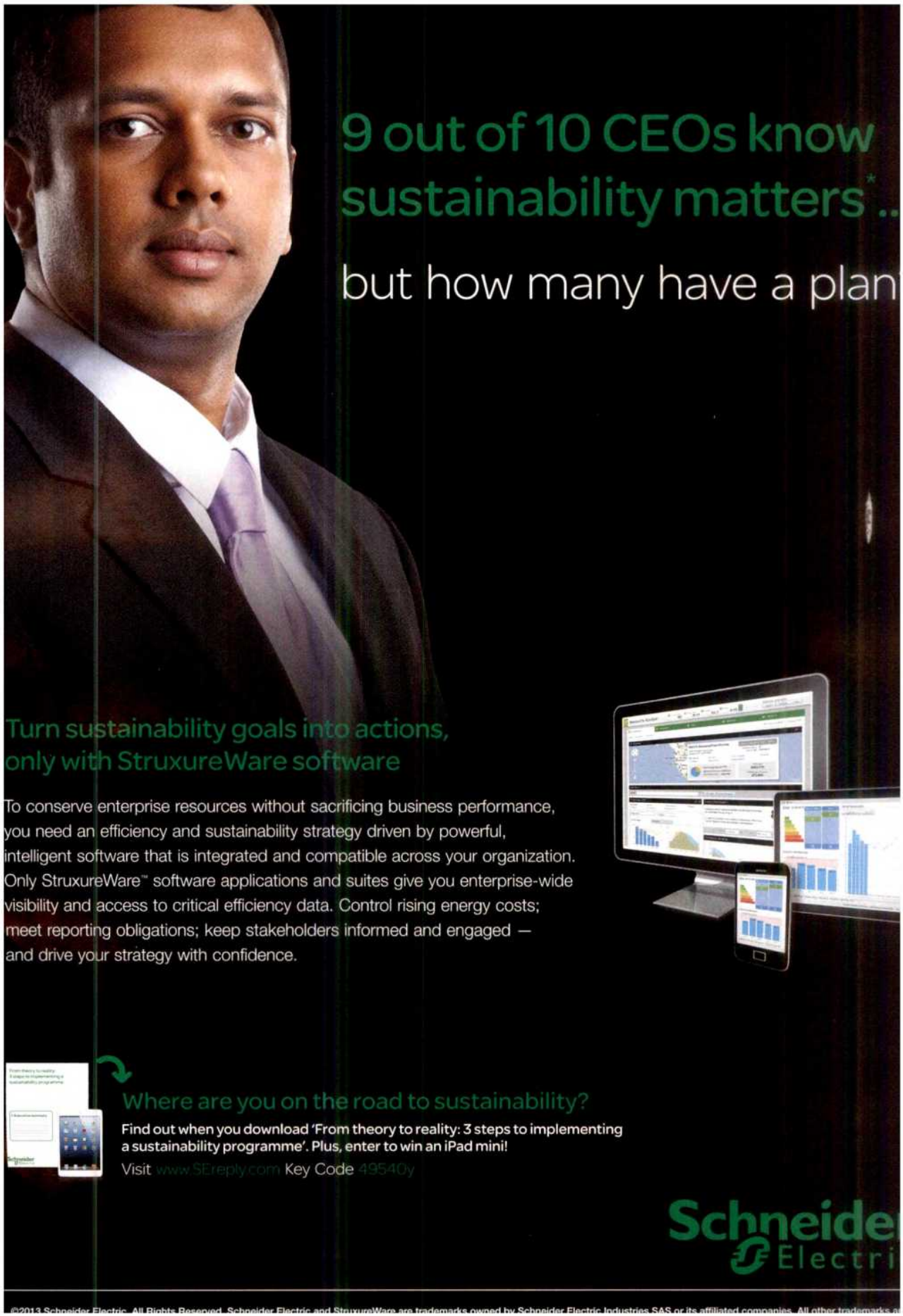
REAL STEEL BY **RELIANCE GAMES:** 10 mn downloads

ise there is hardly any money to be made in the local market. Although companies do not have precise data, most say of the first 5,000-odd downloads soon after a game is released, only about 500 are from India. *Real Steel* by Reliance Games, a mobile game based on a film of the same name, had crossed 10 million downloads across all platforms by March and clocked gross revenues of $5 million. Of this, 46 per cent came from the US while India accounted for under one per cent. Industry experts say the pattern is the same for all games in India because of low credit card penetration and inconsistent advertising revenues.

With the mega bucks in the international market, many mobile gaming companies are tweaking their business strategies and developing games with global appeal which they publish on their own. Take *Bingo Bash*, for example. The game has been designed primarily for customers in the US where Bingo rooms are common. Despite the game's success, the company's revenues are a drop in the ocean compared gaming giants such as Finland-b Supercell, which rakes in ove million a day. And *Bingo Bash* is compared with monster hits suc *Candy Crush Saga* which has an a age of over 45 million monthly u Bash Gaming's co-founders, Su Gupta and Vikas Gupta, are base California. Its US team provides cial cultural and design inputs.

Mobile gaming is still a small of India's total gaming busines report by industry body Federati Indian Chambers of Commerce Industry (FICCI) and consulta KPMG pegs the country's total g ing industry at about ₹15,000 cr of which console games accoun

Rajat Dhariwal (middle), his brother Manuj, and wife Madhumita Halder, of Madrat Games have developed a mobile version of one of their board games, *Aksharit*, a Hindi version of Scrabble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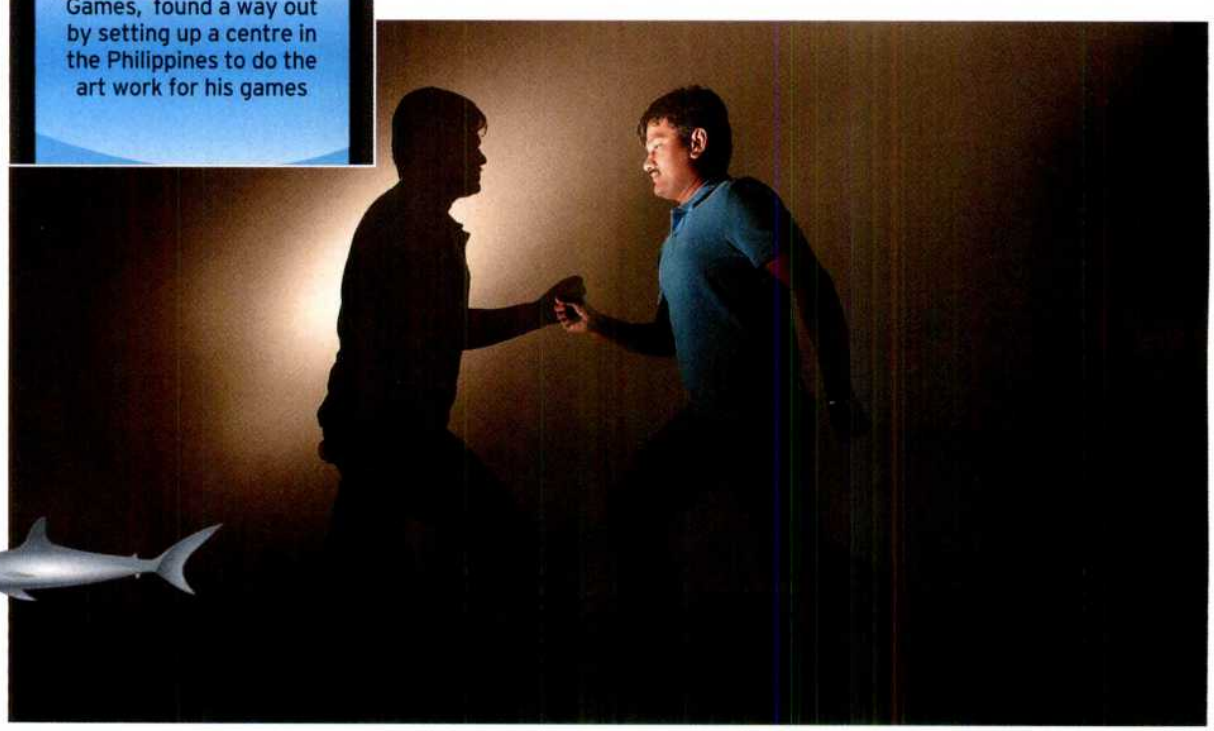
Dumadu creates everything from cricket to shooting games, but its most popular *Game of Death* made just $4,000 in India

DARK RUNNER BY **DUMADU GAMES:** 5.5 mn downloads

almost half (See *Numbers' Game*). But thanks to the growing popularity of smartphones across the world, mobile gaming is expected to jump to ₹18,000 crore by 2017 from barely ₹5,700 crore today. DFC Intelligence estimates the global gaming industry was worth over $70 billion in 2012. "Though console gaming dominates the sector, given the opportunities around mobile we are seeing more interest there," says Jayont R. Sharma, Chairman and CEO of Mumbai-based Milestone Interactive Group, which has major investments in gaming. "Local content on smartphones and tablets can be big given a mass market opportunity."

A few gaming companies such as Csharks Games based in Kerala have been creating games for international clients for years. Six years and hundreds of games after founder Eldhose P. Mathew got his first €200 cheque for creating a Flash game for a German firm, he has become confident enough to reduce his dependence on the services business, and create and publish more games himself. The company based in Kothamangalam, a small town about 60 km from Kochi, has an annual turnover of around ₹1 crore, about 60 per cent of which still comes from games created for others. However, with at least 10 games in app stores and almost as many in various stages of development, Mathew is confident Csharks will maintain a 23-30 per cent growth rate and publish more games under its own name. Its Android game, *Jewel Match*, has clocked at least 50,000 downloads. "We have a game about a drunkard in a *lungi* trying to climb a coconut tree. There is no way such a game will become popular outside India," says Mathew. "The dilemma now is in deciding which games we should publish ourselves and which ones we should sell to clients."

Faced with a skills shortage, Narasimha Reddy, CEO of Dumadu Games, found a way out by setting up a centre in the Philippines to do the art work for his games



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SILVER JUBILEE YEAR

PRIDE GROUP OF HOTELS

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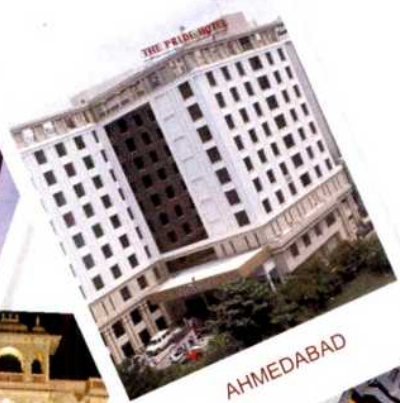
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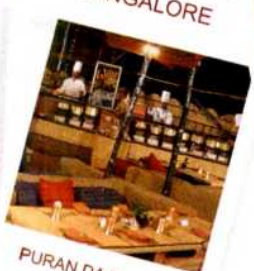
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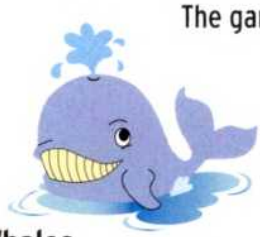
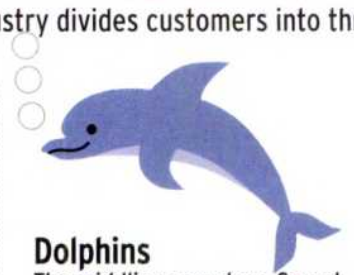
Marine Mix

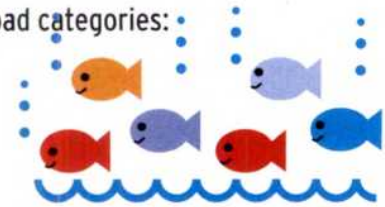
The gaming industry divides customers into three broad categories:



Whales
The biggest spenders. Spend $100 or more a month on one game. About 2 to 5 per cent of gamers



Dolphins
The middling spenders. Spend up to $20 a month on one game. About 10-20 per cent of gamers



Minnows
The most stingy. Might not spend on updates after buying a game. Up to 70 per cent of gamers

Not everybody in the business faces the same dilemma. Jugul Thachery, the founder of Cha-Yo-Wo Games in Leela Infopark in Kakkanad near Kochi, is clear the company has to publish its own games in order to stay relevant in the new world of gaming. Cha-Yo-Wo has already developed popular local games such as *Dark Hills of Cherai*, an adventure game set in coastal Kerala which involves a journey to find a Regal Sceptre before it is overtaken by an evil magician. But that was through a large international publisher. The company will now publish its own games under the Ruby Seven Studios banner, a company set up in San Francisco. "We have done so many good games, but there is hardly any recognition that these were our products," says Thachery, who started out with an animation company in 2000. "Three years ago, I convinced the board to develop our own IP (intellectual property) and publish the games through others. That strategy gave good revenues, but now it is time for the next stage."

With the bulk of the revenues coming from the US and Europe, developers think it is better to design games for their sensibilities. Many locally popular games are based on Bollywood movies, mythology or cricket, which do not travel beyond an Indian audience. But it is not easy to cater to a foreign market, especially because of language and cultural barriers. "We have to be careful even about the colours used. For instance, studies have shown that countries that get less sunlight prefer brighter games," says Virat Singh Khutal, CEO of Indore-based Twist Mobile. "You need to have a clear idea about the audience you are making the games for. We are building tools that will help us port games into multiple languages with ease." His games have clocked over 125

NANDAGOPAL RAJAN

Jugul Thachery (left), founder of Cha-Yo-Wo Games, set up Ruby Seven Studios in San Francisco to publish the company's own games

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Csharks plans to cut its dependence on the services business and publish more games on its own

JEWEL MATCH BY CSHARKS: 50,000 downloads

million downloads, predominantly on the Nokia Ovi store, and generate revenues of over ₹2 crore a year.

Some companies are going beyond the US and Europe, and tapping new Asian markets. In March, Reliance Games acquired a gaming company in Japan and bought a 51 per cent stake in another in South Korea. "These markets are not homogenous with the US market, hence we need games developed by locals for the locals," says Manish Agarwal, CEO, Reliance Entertainment Digital, which owns Reliance Games. The company first tasted global success with *Real Steel* and *F1 2011*, a video game based on the 2011 Formula One season.

One of the challenges most gaming companies face is finding people with the right technical skills. Narasimha Reddy of Bangalore-based Dumadu Games found a way around by setting up a centre with 30 people in the Philippines to develop the art work for his games. Dumadu creates everything from cricket games to shooting-games such as *Game of Death* and clocks annual revenues of about $1 million.

Gaming companies have become less dependent on larger publishers such as Chillingo with the Apple and Google stores opening up. To ensure a regular income stream, many companies are switching from premium or upfront payment and ad-based models to the so-called 'freemium' model. Under this model, they rope in more new players by offering games for free but charge for in-app purchases at crucial junctures. Many can make huge amounts of money from in-app purchases by a handful of players, especially in slot and casino games. These so-called "whales" could spend upwards of $100 a month (See *Marine Mix*).

Digital Chocolate, which used to be among the world's top gaming studios before Rovio and Supercell, banks on the 'freemium' model. "Smaller players should work hard, spend some money and reach 1,000 downloads per day. Then they can collaborate with others and look for mutually beneficial cross-promotion to drive up traffic," says Bangalore-based Managing Director-APAC Dayanidhi M.

Experts say many Indian gaming companies merely create copy-cat versions of global hits such as *Temple Run* and *Parking Mania*. Bangalore-based Madrat Games has adopted a different model: it has developed a mobile version of one of its board games, *Aksharit*, a Hindi version of Scrabble. Jehil Thakkar, head of Media and Entertainment, KPMG India, says gaming companies need to invest more on creating original content with intellectual property protection. "They need to focus on genres that have inherent appeal to Indians, make it to an international standard and take it global," he adds. "Given the ticket size of investment needed, the size and growth of the Indian market, bets on some good creative outfits could really pay off."

Some companies have already developed such games. Mumbai-based Gamiana has created *Vinashi*, a multi-platform strategy game set in 16th century India which involves choosing between clans such as the Mughals, Marathas and Rajputs. CEO Vishal Golia says his goal is to come out with more such immersive experiences that are global in nature, but are still uniquely Indian. But it remains to be seen if Mughal warriors are able to net as many whales as pig-hunting angry birds. ◆

Top Grossing Games in India

ON IPHONES

Clash of Clans, Supercell (Finland)
Poker by Zynga, Zynga (US)
Subway Surfers, Kiloo (Denmark)

ON ANDROIDS

Subway Surfers, Kiloo (Denmark)
Zynga Poker, Zynga (US)
Age of Empire, Silent Ocean (South Africa)

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The Power of Two

SIDDHARTHA LAL, MD and CEO, Eicher Motors

EXECUTIVE SUMMARY: *In 2008, Eicher Motors tied up with Swedish truck maker Volvo in its bid to become a larger player and build a global presence in the commercial vehicle business. Volvo, on the other hand, wanted to crack the small and medium-truck segment in India. This case study looks at how the two companies leveraged their respective strengths to achieve their disparate goals.*

By SUNNY SEN

VINOD AGGARWAL, CEO, VE Commercial Vehicles

VIVAN MEHRA/www.indiatodayimages.com

At the newly constructed headquarters of Eicher Motors in Gurgaon, a 35-tonne spiral staircase made of steel hangs from the ceiling. The flight of steps goes all the way up to the sixth floor of the glass-and-steel building, where Eicher Managing Director and CEO Siddhartha Lal sits in a corner office. The building is a "green" structure, which means it is constructed largely with renewable material and is energy-efficient. It is also a reflection of Lal's business mantra of maximising the use of available resources.

Efficient utilisation of resources is the main reason why Lal, a third-generation member of the family that controls Eicher, joined hands with Swedish truck maker Volvo in 2008 to form VE Commercial Vehicles (VECV). Lal wanted to boost Eicher's commercial vehicles business in India and also build an overseas presence. Eicher probably could have done that on its own but it would have required a vast amount of time and effort. In 1997, for instance, Eicher started developing a heavy truck to compete with market leaders Tata Motors and Ashok Leyland. It took Eicher six years and ₹25 crore to build the truck. There was also the risk of failure, and Lal didn't want to take that chance.

Eicher was set up in 1948 to import tractors. It entered the commercial vehicle business in 1986 when it began selling a six-tonne fully imported truck from Japanese auto

EICHER, VOLVO MUST ANTICIPATE AND RESOLVE TRICKY ISSUES

A joint venture's initial success is often linked to the '4Cs of Partner Fit': Convergence, Complementarities, Commitment and Compatibility. The Volvo-Eicher joint venture demonstrates that the partners have 'convergent objectives' in terms of wanting to crack into India's large commercial vehicle market against established incumbents like Tata Motors and new global rivals like Daimler.

They also bring complementary strengths to the relationship – Volvo contributes its global brand and experience, world-class technology and processes whereas Eicher provides local market understanding along with frugal manufacturing capabilities. Both partners seem committed to the relationship as evidenced by their growing investment in it over time, and their working styles seem compatible enough.

While things currently look fine, some tricky issues might arise in the future. Volvo has gradually learnt what it takes to compete effectively in India. It has invested more into the joint venture over time as compared to Eicher. Will the mutual dependence and bargaining power between the partners become more asymmetric? Volvo may want more control and a bigger say in decision-making and it may not value Eicher's contribution to the same extent as before. Many prior ventures between multinational companies and Indian players have faced these issues, and consequently ended fractiously. Hopefully, Eicher and Volvo would anticipate these evolving issues and have effective ways to address them.

"Both partners seem committed to the relationship... and their working styles seem compatible enough"

PRASHANT KALE, Professor of Strategy at Rice University and Learning Director for Program on 'Managing Strategic Alliances' at the Wharton School

VOLVO'S STRENGTHS

- Global distribution
- Advanced technology
- Financial muscle

maker Mitsubishi. The partnership ended in 1993. Eicher continued building its own trucks until 2006/07 when Lal realised the growing demand for technologically advanced trucks and buses in the rapidly expanding Indian economy. He needed a foreign partner to make a great leap forward. "In order to crack the market we needed more muscle – funds, systems and technology," says Lal, who had previously turned around Eicher's iconic Royal Enfield motorcycle unit (see *businesstoday.in/re-bullet*).

In Volvo, the world's second-largest truck maker after Daimler AG of Germany, Lal found a partner which had all that. Eicher moved its truck and bus business to a new company, the joint venture VECV, into which Volvo pumped about ₹1,082 crore and added its heavy trucks distribution business to buy a 50 per cent stake. Volvo brought advanced manufacturing technology and set up new processes to improve Eicher's after-sales service. The partners set up a component distribution centre, which ties into the after-sales service, to monitor inventory at retail outlets and Eicher's warehouses.

How does Volvo benefit from the tie-up? The European giant was until then supplying heavy trucks to select industries such as mining and construction in India. It was eager to

expand its commercial vehicle business in the country, but Volvo trucks were costlier than products sold by local rivals. "We (Volvo) realised we wanted to participate in India's mainstream business, for which we had to produce trucks at a lower price," says Philippe Divry, Senior Vice President and Director at VECV.

Divry says Volvo had two main goals while forming the joint venture. One was to get a significant market share in India, and the other was to make India a base for exports to other emerging markets. But vehicles made in India were not good enough to export. Volvo knew if it completely overhauled the Eicher platform the cost would jump significantly. It had to selectively inject technology to make the products better. Eicher's low-cost manufacturing base offered Volvo that opportunity. "Frugal engineering is something all global manufacturers are looking at," says Abdul Majeed, leader of automotive practice at consultancy and audit firm PricewaterhouseCoopers (PwC).

Vinod Aggarwal, CEO of VECV, says a global truck maker would have had to spend three to four times the amount Eicher did in developing a new truck or setting up a new factory. Aggarwal says VECV has invested ₹1,300 crore to expand manufacturing and distribution capacity.

TIE-UP WILL RESHAPE EICHER'S PRESENCE IN INDIA, OVERSEAS

The Volvo-Eicher joint venture, VE Commercial Vehicles, is a perfect marriage wherein each individual company has its own strengths and, at the same time, fills the gaps of the better half. This partnership will definitely reshape Eicher's presence in the Indian and overseas markets, as it will bring in Volvo's expertise of trucks manufacturing along with leveraging its global network to enhance Eicher's overseas business.

The venture will help both companies fill their gaps. It will help Eicher re-align its product line to address the changing scenario for both domestic as well overseas markets. In case of Volvo, it will help pave the way for it to address the high-volume market of low-cost medium- and heavy-duty trucks, as well as build upon the low-cost manufacturing base available with domestic manufacturers in India. This partnership will benefit Volvo in a similar way, just like the recent move of establishing an engine assembly line at Pithampur to meet the requirements of its European market.

VE Commercial Vehicles will also be able to reap benefits of the brand proposition that Volvo has already created with the masses in India because of its luxury buses and value-added trucks, which are considered synonymous with quality, comfort, and reliability. It definitely assures customers that their expectations will be met with respect to the products coming out of this joint venture.

Needless to say, in the long run, VE Commercial Vehicles will be one of the prime competitors in India's low-cost trucks market, strong enough to compete with global majors like Tata Motors and Ashok Leyland.

EICHER

EICHER'S STRENGTHS

- Mass-market products
- Frugal engineering
- Experience of working in an emerging market

"VE Commercial Vehicles will be one of the prime competitors in India's low-cost trucks market"

VIJAY KAKADE, Director, Automotive & Transportation Practice, Frost & Sullivan

improve processes and set up an engine factory at Pithampur in Madhya Pradesh. The factory can make 100,000 engines a year. VECV will export 30 per cent engines annually to Europe, starting this year. These engines will conform to Euro-VI emission standards – to be implemented in Europe from January 2014. In the next two years, VECV plans to invest ₹1,200 crore to develop products, set up a bus body plant and expand capacity, he adds.

The investments have started showing results. The market share of Eicher-branded light and medium trucks grew to more than 31 per cent in 2012 from 27 per cent in 2008. In the heavy vehicles segment, VECV's share has risen by a percentage point every year to five per cent. In buses, the market share has tripled to 14 per cent. Eicher's revenue from the trucks and bus business has more than doubled since forming the joint venture to ₹5,443 crore in 2012. VECV has a cash surplus of ₹700 crore and posted a net profit of ₹336.66 crore in 2012.

Eicher's revenue from the trucks and bus business has more than doubled since forming the joint venture to ₹5,443 crore in 2012

Exports to neighbouring countries such as Sri Lanka, Nepal and Bangladesh contribute four per cent to VECV's total sales. In the next few years the target is to take this to 12 per cent by exporting vehicles to Southeast Asia, West Asia and Africa. "They (Eicher) decided to break into the Asian market but could not do so without a joint venture model," says Jeffrey W. Wilmot, India country manager at PTC Inc, which offers services such as product and supply chain management.

Aggarwal of VECV says Eicher will now be the Swedish company's fifth truck brand globally, after Volvo, UD, Renault, and Mack. "The world opens up for us by using their (Volvo's) distribution network." Exporting Eicher-branded vehicles benefits Volvo as well, because the low-cost Eicher vehicles offer Volvo a chance to boost its presence in emerging economies without diluting its brand image. "In joint ventures like these, a learning from one developing country is being taken to other countries," says PwC's Majeed.

Sitting in the Gurgaon headquarters, Lal recalls he initially had doubts about VECV's success. But he has managed to prove his own doubts wrong and reoriented Eicher's commercial vehicle business. ◆

What can we learn from the Eicher-Volvo joint venture? Post your comments at www.businesstoday.in/casestudy-eicher. The best response will win a copy of the Harvard Business School Press pocket mentor. Previous case studies are at www.businesstoday.in/casestudy.

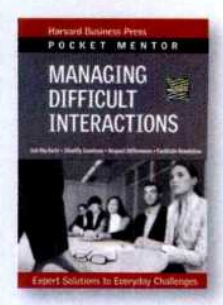
BEST OF THE LOT

BT receives scores of responses to its case studies. Below is the best one on cross-badging of cars (April 28, 2013)

Tanaya Saha (tanaya@iimidr.ac.in), Indore

The cross-badging strategy relies mainly on the brand value of a product. However, the similarities of the physical features override the value proposition shared by different products. It questions the rationality of the customers. In India, cross-badging is used for optimising cost. It has given importance only to the manufacturers and the preferences of consumers have been left out.

To make a strategy competent, it is necessary to maintain a demand-supply equilibrium. The cross-badging strategy has failed to maintain this equilibrium and so became ineffective. In order to make cross-badging a success in India, Indians should be made aware of the value proposition of different brands. For a branded car, an Indian never wants to go for huge opportunity costs and so he buys a car with equal facilities at a low price or from a brand with which he is acquainted. Creation of a sustained brand image takes a long time. An international brand will primarily have to build trust among Indian consumers and make Indians aware of its value proposition. It is only then the strategy of cross-badging will become successful in India.



Tanaya Saha wins a Harvard Business School Press pocket mentor

A Maharatna Company

Bharat Heavy Electricals Limited

Website: www.bhel.com
Registered Office: BHEL House, Siri Fort, New Delhi - 110049

AUDITED FINANCIAL RESULTS FOR THE QUARTER/YEAR ENDED 31ST MARCH 2013

(₹ Crores)

Sl. No.	PARTICULARS	3 Months Ended 31.03.2013# Unaudited	Preceding 3 Months Ended 31.12.2012 Unaudited	Corresponding 3 Months Ended 31.03.2012 in Previous Year Unaudited	Current Year Ended 31.03.2013# Audited	Previous Year Ended 31.03.2012 Audited	Consolidated Results For Year Ended 31.03.2013 Audited	Consolidated Results For Year Ended 31.03.2012 Audited
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	PART - I							
1	**Income from Operations**							
	Sales/Income from Operations	19866.77	10539.50	20249.47	50156.48	49509.78	50672.84	49897.57
	Less: Excise Duty/Service Tax	1016.61	497.85	985.07	2538.81	2281.92	2566.53	2298.62
	a. Net Sales/Income from Operations	18850.16	10041.65	19264.40	47617.67	47227.86	48106.31	47598.95
	b. Other Operating Income	354.22	178.06	362.90	806.98	751.03	809.53	756.27
2	**Expenses**							
	a. Cost of materials consumed (including erection & engineering)	9662.40	5587.83	10605.23	27239.61	28239.85	27504.93	28459.54
	b. Changes in inventories of finished goods, work-in-progress and stock in trade	966.64	148.57	529.78	116.21	(823.20)	121.20	(829.90)
	c. Employee benefits expense	1439.09	1437.31	1477.66	5752.78	5465.43	5824.00	5529.37
	d. Depreciation and amortisation expense	288.90	219.79	254.14	953.39	800.00	957.18	803.24
	e. Other expenses	2485.03	1411.94	2043.91	5926.66	5208.82	5983.11	5244.86
	Total Expenses	**14842.06**	**8805.44**	**14910.72**	**39988.65**	**38890.90**	**40390.42**	**39207.11**
3	Profit from Operations before Other Income, finance costs and Exceptional Items (1-2)	4362.32	1414.27	4716.58	8436.00	9087.99	8525.42	9148.11
4	Other Income	292.39	332.38	365.41	1121.71	1265.55	1128.76	1272.03
5	Profit from ordinary activities before finance costs and Exceptional Items (3 + 4)	4654.71	1746.65	5081.99	9557.71	10353.54	9654.18	10420.14
6	Finance costs	40.53	50.91	18.34	125.27	51.28	127.61	53.07
7	Profit from ordinary activities after finance costs but before Exceptional Items (5 - 6)	4614.18	1695.74	5063.65	9432.44	10302.26	9526.57	10367.07
8	Exceptional Items	-	-	-	-	-	4.14	0.16
9	Profit from ordinary activities before tax (7+8)	4614.18	1695.74	5063.65	9432.44	10302.26	9530.71	10367.23
10	a. Tax expense (incl. deferred tax)	1437.67	513.89	1705.67	2878.74	3284.13	2898.64	3301.80
	b. Prior Period Tax	(61.03)	0.00	(21.83)	(61.03)	(21.83)	(61.03)	(21.83)
11	Profit from ordinary activities after tax (9-10)	3237.54	1181.85	3379.81	6614.73	7039.96	6693.10	7087.26
12	Extraordinary Item (net of tax expense)	-	-	-	-	-	-	-
13	Net Profit for the period (11 ± 12)	3237.54	1181.85	3379.81	6614.73	7039.96	6693.10	7087.26
14	Share of profit / (loss) of associates	-	-	-	-	-	-	-
15	Minority Interest	-	-	-	-	-	-0.27	-0.18
16	Net Profit after taxes, minority interest and share of profit /(loss) of associates (13 + 14 - 15)	3237.54	1181.85	3379.81	6614.73	7039.96	6693.37	7087.44
17	Paid-up equity share capital (Face Value ₹ 2 per share)	489.52	489.52	489.52	489.52	489.52	489.52	489.52
18	Reserve excluding Revaluation Reserves as per balance sheet of previous accounting year				29954.58	24883.69	30043.21	24913.54
19	Basic & Diluted Earnings Per Share (before & after extraordinary items) (₹)	13.23 (Not annualised)	4.83 (Not annualised)	13.81 (Not annualised)	27.03	28.76	27.35	28.96
	PART - II							
A	**Particulars of Shareholding**							
1	**Public shareholding**							
	- Number of shares	790048000	790048000	790048000	790048000	790048000	790048000	790048000
	- Percentage of shareholding	32.28%	32.28%	32.28%	32.28%	32.28%	32.28%	32.28%
2	**Promoters and Promoter Group Shareholding**							
	a. Pledged / Encumbered							
	- Number of shares	NIL	NIL	NIL	NIL	NIL	NIL	NIL
	- Percentage of shares (as a % of the total shareholding of promoter and promoter group)							
	- Percentage of shares (as a % of the total share capital of the company)							
	b. Non - encumbered							
	- Number of shares	1657552000	1657552000	1657552000	1657552000	1657552000	1657552000	1657552000
	- Percentage of shares (as a % of the total shareholding of the Promoter and Promoter group)	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
	- Percentage of shares (as a % of the total share capital of the company)	67.72%	67.72%	67.72%	67.72%	67.72%	67.72%	67.72%

B	**Investor Complaints**			
	Pending at the beginning of the quarter	0	Disposed off during the quarter	276
	Received during the quarter	276	Remaining unresolved at the end of the quarter	0

SEGMENTWISE REVENUE, RESULTS AND CAPITAL EMPLOYED

(₹ Crores)

SL. No.	PARTICULARS	3 Months Ended 31.03.2013# Unaudited	Preceding 3 Months Ended 31.12.2012 Unaudited	Corresponding 3 Months Ended 31.03.2012 in Previous Year Unaudited	Current Year Ended 31.03.2013# Audited	Previous Year Ended 31.03.2012 Audited	Consolidated Results For Year Ended 31.03.2013 Audited	Consolidated Results For Year Ended 31.03.2012 Audited
1	**Segment Revenue**							
	A. Power	15539.18	8307.55	15573.79	39576.74	37862.87	40041.78	38191.81
	B. Industry	4340.92	2236.54	4678.88	10604.00	11658.86	10655.33	11717.71
	Total	**19880.10**	**10544.09**	**20252.67**	**50180.74**	**49521.73**	**50697.11**	**49909.52**
	Inter segmental revenue	-	-	-	-	-	-	-
	Sales / Income from operations	19880.10	10544.09	20252.67	50180.74	49521.73	50697.11	49909.52
2	**Segment Results (Profit before Tax & Finance Cost)**							
	A. Power	4061.63	1522.43	4260.13	8559.48	8183.81	8625.34	8238.79
	B. Industry	936.29	408.82	1420.13	2196.57	3342.42	2233.02	3353.99
	Total	**4997.92**	**1931.25**	**5680.26**	**10756.05**	**11526.23**	**10858.36**	**11592.78**
	Less: Finance Cost	40.53	50.91	18.34	125.27	51.28	127.61	53.07
	Other unallocable expenditure net of income	343.21	184.60	598.27	1198.34	1172.69	1200.04	1172.48
	Total Profit before Tax	**4614.18**	**1695.74**	**5063.65**	**9432.44**	**10302.26**	**9530.71**	**10367.23**
3	**Capital Employed** (Segment Assets - Segment Liabilities)							
	A. Power				16655.88	12161.62	17025.42	12616.51
	B. Industry				5855.56	5355.70	5899.96	5366.34
	Capital Employed (including unallocable common)				29160.75	22650.61	28902.28	22211.49

Notes:

1. STATEMENT OF ASSETS AND LIABILITIES

(₹ Crores)

	PARTICULARS	Standalone At the end of 31.03.2013#	Standalone At the end of 31.03.2012	Consolidated At the end of 31.03.2013	Consolidated At the end of 31.03.2012
A	**EQUITY AND LIABILITIES**				
1	**Shareholders' fund**				
	a. Share capital	489.52	489.52	489.52	489.52
	b. Reserves & surplus	29954.58	24883.69	30043.21	24913.54
	Sub-total Shareholders' funds	**30444.10**	**25373.21**	**30532.73**	**25403.06**
2	**Minority Interest**	-	-	4.70	4.97
3	**Non-current liabilities**				
	a. Long-term borrowings	129.20	123.43	1233.03	282.07
	b. Deferred tax liabilities (Net)	0.00	0.00	0.00	0.00
	c. Other long term liabilities	5789.68	7558.59	5811.43	7574.74
	d. Long term provisions	5932.91	5005.68	5962.52	5023.80
	Sub-total Non Current liabilities	**11851.79**	**12687.70**	**13006.98**	**12880.61**
4	**Current Liabilities**				
	a. Short-term borrowings	1286.00	-	1390.54	86.75
	b. Trade payables	9675.24	10254.82	9753.80	10352.67
	c. Other current liabilities	13862.10	15824.60	14025.89	16031.98
	d. Short-term provisions	3009.22	2635.69	3038.06	2670.24
	Sub-total Current liabilities	**27832.56**	**28715.11**	**28208.29**	**29141.64**
	TOTAL - EQUITY AND LIABILITIES	**70128.45**	**66776.02**	**71752.70**	**67430.28**
B	**ASSETS**				
1	**Non Current Assets**				
	a. Fixed Assets (incl. CWIP)	5630.08	5644.42	6850.05	6096.19
	b. Goodwill on consolidation	-	-	185.87	185.87
	c. Non-current investments	429.17	461.67	5.94	5.94
	d. Deferred tax assets (net)	1550.69	1546.24	1555.80	1549.48
	e. Long-term loans and advances	905.33	900.10	929.76	957.45
	f. Other non-current assets	10653.72	9383.62	10814.44	9416.26
	Sub-total Non Current assets	**19168.99**	**17936.05**	**20341.87**	**18211.19**
2	**Current assets**				
	a. Current investments	-	-	-	-
	b. Inventories	11763.82	13548.73	11869.03	13633.40
	c. Trade receivables	29234.49	26356.93	29370.29	26551.33
	d. Cash and cash equivalents	7732.05	6671.98	7845.05	6734.33
	e. Short term loans and advances	2029.12	2111.72	2123.73	2148.04
	f. Other current assets	199.98	150.61	202.73	151.99
	Sub-total Current assets	**50959.46**	**48839.97**	**51410.83**	**49219.09**
	TOTAL ASSETS	**70128.45**	**66776.02**	**71752.70**	**67430.28**

Subject to audit u/s 619(4) of the Companies Act, 1956 by the C&AG of India.

The figures have been regrouped, wherever necessary.

2. The consolidated financial statements have been prepared in accordance with Accounting Standard-21 on "Consolidated Financial Statements" and Accounting Standard-27 on "Financial Reporting of interest in Joint Ventures".
3. The Company has sold its long term investment in Joint Venture company M/s Udangudi Power Corporation Limited on 26.03.2013.
4. The Board of Directors have recommended a final dividend of ₹ 3.29 per share (Face Value ₹ 2 per share) in addition to the interim dividend of ₹ 2.12 per share (Face Value ₹ 2 per share) paid during the year.
5. Figures of last quarter are the balancing figures between audited figures in respect of the full financial year and the published year to date figures upto the third quarter of the current financial year.
6. The above results have been reviewed by the Audit Committee and were taken on record by the Board of Directors in their meeting held on 23.05.2013.

For Bharat Heavy Electricals Limited
Sd/-
(B. Prasada Rao)
Chairman & Managing Director

Place : New Delhi
Dated : 23.05.2013

Powering Progress... Brightening Lives   **Touching Every Indian Home**

Corporation Bank

"Future Ready"

Performance, if delivered with passion will always yield extraordinary results

Ajai Kumar
Chairman & Managing Director, Corporation Bank

Corporation Bank is one of the old banks in the country established way back in 1906. The Bank founded by a great visionary philanthropist, Khan Bahadur Haji Abdullah Haji Kasim Saheb Bahadur with an initial capital of just ₹5000, is today an institution with business level of over ₹ 2.84 lakh crore and a network of over 6000 service outlets spread across the country. In order to take its visionary founder's legacy forward the Bank has taken a host of steps for spreading financial awareness among the masses and to disseminate Banking acquaintance and insight. The Bank is a forerunner when it comes to evolving and adapting to the financial sector reforms. The Financial Inclusion initiatives and Branchless Banking model taken up by the Bank have won wide appreciation and the Bank is among the pioneers in this field in India. Corporation Bank has been a trend setter of sorts. Whether, it be the first Bank to go for CBS, the first Bank to go for e-payment of taxes or the first Bank to showcase a passion for performance.

The Bank, which has many such firsts to its credit has taken a leap ahead into the world of Digital Banking, with a renewed focus in the Retail Banking space.

The credit for this changing model goes to Ajai Kumar, the man who has led the Bank from the front to usher it into the new age Digital Banking space. Ajai Kumar, who took charge of the Bank in October 2011 as its leader, has catapulted the Bank to phenomenal growth in areas of Retail Banking and Digital Banking.

One of the most tech-savvy bankers, you would find him accessible on his iPhone and iPad through mails, messaging and calls. For the entire workforce of Corporation Bank, he is one of the most accessible Chairman and Managing Directors of the Bank.

Truly understanding the requirements of time, he has been able to target the Gen-Y segment through its Digital Banking Initiatives, without losing sight on the real business growth which comes from Retail Banking. This twin focus strategy has given noteworthy results for the Bank. The Bank became the first Bank to have its application on iPad, thus catering to the requirements of today's generation. Through the iPad, iPhone and Android based applications; the Bank is making quick in-roads into the younger bankable segment.

कार्पोरेशन बैंक Corporation Bank

A Premier Public Sector Bank

In the last one year, Corporation Bank has increased its brand image and brand value with its series of customer friendly initiatives in the field of e-banking, retail banking and focus on mSME loans. The wide range of products and services launched during this period stands testimony to the guidance and direction of the leader. As an able leader, Ajai Kumar did not forget the basic ingredients of a successful organization. Human Resources have always been the key enablers for growth in any institution. He has been a mentor to the Top Management team of the Bank and has guided the Training department to ensure that skill development remains a key focus area for the Bank. The staff members have been sent to business institutes of repute, nationally as well as internationally to get trained and implement the know-how in the further growth of the Bank.

It is under his mentorship, that the Bank has undertaken a Business Process Re-engineering exercise. The exercise named as "Project Sankalp", focuses on the re-modelling of the existing branches, streamlining the centralized units, re-designing the core processes, strengthening the Bank's alternate-channel architecture, developing the Bank's human capital, introducing capability building, manpower planning, streamlining other HR processes and grooming future leaders of the Bank in its 18 month journey of transformation.

The Bank's sincere, committed workforce has started working as a team of passionate employees with renewed vigor, which has enabled the bank to compete ably with its peer banks having a relatively higher and better widespread branch network.

REDEFINING PREMIUM BANKING

Corporation Bank has been always known as a Premier Public Sector Bank and is always construed as a private sector bank in public sector space due to its path breaking initiatives such as Collection and Payment Services, IT enabled services and customized products for the Corporates.

The Bank has redefined the premium banking concept in Corporation Bank with renewed focus on the retail segment by launching a series of new asset and liability products, besides giving focus to the E-business channels, which ensure that the banking transactions happen at the convenience of the customers who do not have the time to visit the service outlets.

The Bank offers bouquet of features and add-ons, which are integrated to make the Savings schemes unique and attractive. The Bank has launched two new premium savings account variants - SB Super and SB Signature. The various features include the free personal accident cover of ₹ 10 lakh in SB Signature and ₹ 5 Lakh in SB Super, besides others. To encourage customers to use debit cards - free Visa Signature debit card is provided to SB Signature customers and Visa Platinum debit card to SB super customers. To give a premium touch to banking, both these set of customers will get preferential loan processing by affixing priority seal by the branch while forwarding loan applications.

The Bank has also come out with two new Premium Variants in the Current Account segment – 'Corp Privilege' and 'Corp Club' with a number of add-ons and freebies. Under the above schemes, the Bank is offering free benefits like SMS Alerts, NEFT/RTGS, Account Statement by Email among others.

The Bank has come out with a special current account for exporters and importers – 'Corp Global Current Account'. This current account is specially designed for the Forex clients who do not enjoy any credit limits.

Corp Global Current Account

Corp Privilege Current Account

Corp Club Current Accounts

Corp Signature Premium Savings Account

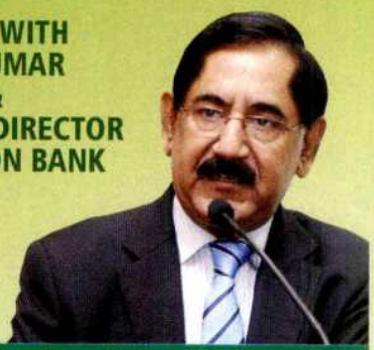
Corp Super Premium Savings Account

DIGITALIZATION OF SERVICES: A COMPETITIVE ADVANTAGE

A technology man himself, since his previous stints with UCO Bank as Executive Director and Bank of Baroda as General Manager, Ajai Kumar has taken the Bank to greater heights in the field of Digital Banking. The number of awards and accolades won in the past speaks volumes about the progress made by the Bank in this field.

In the present economic scenario of rising expenses and shrinking profits, Digital Banking holds the key.

TETE-A-TETE WITH SHRI AJAI KUMAR CHAIRMAN & MANAGING DIRECTOR CORPORATION BANK



Your bank has been known for its service of people and has carved its own niche in the area of Customer Service. What in your view accounts for its success and popularity?

Giving effective and satisfactory service to its clients is the key to a successful organization. Banking is a Service Industry and therefore serving people through our wide range of products is the essence of our success.

We at CorpBank always look towards fulfilling and meeting the financial needs of the people with our bouquet of services. The Bank has always been on the forefront of new and innovative products which have been accepted across the board by all our customers. Whether it was CAPS, direct tax payment through ATMs or opening of online term deposits, the Bank was the first or amongst the first. The acceptability of our products and the continued support given by the customers made us the market leaders.

This motivation has led us to further evolve in the presentation of our services and products to match the customer's convenience. Besides being a trendsetter in its IT based innovations the Bank is now moving ahead with a host of e-banking initiatives. Towards this, the Bank has already launched applications on the iPad, iPhone and other Android based Smart Phones and Tablets.

We are constantly looking out for innovations for making our service delivery better and reach the higher levels of Customer Delight in every transaction.

Banks are giving a lot of focus to retail & SME advances. What is your outlook on the same?

Retail has been one of our focus areas. Yes, we have gone for retail lending under our various schemes in a big way. Aggressive would be a strong word to denote our focus, but I can say that we are cautiously and steadily increasing our portfolio under this segment. By extending credit to this segment, we plan to widen our clientele, improve the business relationship, maintain higher levels of yield and spread the risk with lower servicing costs.

In order to give a fillip to the retail portfolio, the Bank has conducted various campaigns targeted at mobilizing vehicle and housing loans, and also potential segments like Traders, Doctors and other professionals. The housing loan Expos and Vehicle Loan Melas conducted by many of our Zones have been a huge success and contributed a lot to our growth. Our growth under Retail lending schemes has been over 40% and the going is good under Vehicle, Vyapar, Mortgage and Doctor plus schemes besides achieving a good growth under Home Loans.

We have taken a major initiative by opening up SME Loan centers to target the high growth potential in the SME business in India. Today, we have 16 such loan centers across the country. We have also launched "First of the Kind" specialized smallB branch at Bangalore to finance startups and innovative MSME(SIMS).

CASA has been one of the concerns for Corporation Bank. How do you plan to improve the same?

Improving the share of CASA deposits has continued to be an area of constant focus for the Bank. I strongly believe that better customer service and quality products are the pre-requisite to buildup the share of CASA deposits. In pursuit of the same, the Bank has introduced many innovative products in the recent past catering to the different customer base.

We have launched a series of Products in the Saving Bank account and Current Account category. The benefits attached with these accounts are very attractive and are bringing new accounts to our fold. Further, we plan to reach out to more number of people and for that we are focusing on our newly opened branches. These branches would support the existing branches to drive the CASA growth for the Bank. In the previous year itself, the Bank has opened 207 branches to reach a branch tally of 1707 branches. The tech enabled services and alternative delivery channels may also help the Bankto attract the younger generation and upwardly mobile customers to open more CASA accounts. Further, Financial Inclusion is another thrust area, where the Bank is very active, which would also make the Bank to access cheap funds from vast sections of the people.

'GenY' is your target segment. Considering their interests in mind, you had stressed the need for more focus on digital banking. How is the feedback for the recentinitiative of tablet PC and iPadbanking? What are your future plans to attract 'GenY'?

The objective of the Bank is to enable customers to access the various products and services with ease and comfort. Customers, more particularly, the youth have grown from laptops to mobiles to tablets and smart phones. Banking earlier was restricted to Bank premises, moved to the ATMs and then to the comfort of the homes/offices (Internet Banking) and now to the palms of the customers.

Digital Banking has facilitated this and brought about information accessibility and synergy through all alternate channels and it is the youth who are willing to try out experiment and experience new things.

It is with this objective that the Bank started presenting first product information through tablets, then extended this to offer a compendium of financial news,indicators and information. The Bank got positive feedback on this initiative. The launch of the transaction services has now further improved the customer response to us. The application for funds transfers through iPhone, iPad and other Smart Phones have caught the attention of the customers very fast and the feedback has been very encouraging.

Corporation Bank is a PSB, How have you been able to strike a balance between Corporate, Retail & Priority Sector Lending?

As i said before, we could post a phenomenal growth under retail lending. Under priority sector lending also, the Bank posted a growth of 27% which is above the average credit growth. The quality in our Corporate Loan book has increased over time with substantial reduction in our bulk advances. I am sure we would continue to focus on good quality of credit and thereby maintain the right balance in our credit portfolio.

What would you consider as your major initiatives taken in Corporation Bank since you joined in October 2011?

Since my joining the Bank, my main focus is to ignite the Passion for Banking in the already vibrant and active workforce of Corporation Bank. I strongly feel that I have succeeded in my objective.

Corporation Bank was already a forerunner in IT innovation and I took this opportunity to take the Bank to greater heights in Digital Banking. The Bank has been a market leader in many of the Digital Banking initiatives. My faith in a four tier administrative structure as a solution to better governance, quick decision making, led me to introduce the same in Corporation Bank. I feel proud to say that at Corporation Bank, the introduction of concept of Circle Office has resulted in better control and quick decision making.

SME lending was another focus area, where the Bank has achieved major success with the launch of 16 dedicated SME loan centres. My passion for retail business has been translated well in the Bank and we have achieved a growth of around 39% in retail lending.

I have made sure that Corporation Bank brand makes a presence in the heart and minds of millions of our existing and prospective customers.

Truly understanding the fact there is no end to innovation, the Bank is continuously bringing out new products and is innovating on the service delivery mechanism.

The competition in the banking industry to attract as well as to retain customers is leading to a new war of ideas and innovations in the product offering and payment and fund transfer solutions. The Bank has already launched a series of initiatives in the field of digital banking, iPhone & iPad application and Android application with funds transfer facility.

In the present economic scenario of rising expenses and shrinking profits, Digital banking holds the key. With the advent of Private and Foreign banks in India post LPG (Liberalization, Privatization and Globalization) era, staying competitive and relevant in the present cut- throat competition has become difficult.

Though Brick and Mortar Branches will continue to remain at the forefront of the distribution channel in the Banking Industry, the percentage of transactions shifting to alternate channels is continuously on the rise. The supremacy of the principle channel is, therefore, challenged with the advent of new age banking and the Bank has addressed it with full zeal and efforts.

Under his leadership, Corp Bank looks beyond the mere networking capabilities of the social media, and plans to use its wide base to closely connect with its existing as well as prospective customers.

DRIVING WHEEL OF THE NATION: CORPBANK SME LOAN CENTERS

The Indian economy is waiting to enter into the league of industrially developed nations. Industrial growth is very critical for ensuring a the sustainable growth of the economy. The fact that Indian banks have to contribute to the industrial growth of the economy in a big way did not miss the attention of Ajai Kumar, who right from the beginning asked his lending team to focus on mSME loans. The SME Loan centres, which the Bank has opened today is due to his far-sighted thinking to ensure that banks truly act as the " Engines of India's Industrial Growth" With approximately 30 million SMEs in India,

12 million people are expected to join the workforce in the next 3 years and the sector is growing at a rate of 8% per year. With this huge potential, backed up by strong government support; Indian SMEs continue to post their growth stories

With the positive outlook of the Indian economy, Indian SMEs plan to increase their capital expenditure and increase their contribution to India's GDP. Funding of SMEs by local and foreign investors, the new technology that is used in the market is assisting SMEs add considerable value to their businesses, various trade directories and trade portals to help facilitate trade between buyer and supplier thus reducing the barrier to trade.

While Digital Banking holds the key to faster delivery of services to the large clientele base, the focus on retail banking and SME banking has delivered good results to the Bank in terms of numbers as well as quality.

PERIODIC CHISELING OF EXECUTIVES: NEED OF HOUR

Various forces of change have created a paradigm shift in the way customers behave and conduct their banking activities. Forces of technology, globalization, longevity, demography and structures in society are changing the environment so fast that today's knowledge is redundant tomorrow. To attract and keep the best and the brightest, the Bank is offering the employees opportunities for educational and vocational development that address their needs to remain relevant and aggressive in pursuing their career goals. As a result, knowledge has to be sharpened and enhanced on a continuous basis to keep pace with the change and withstand the competition. Corp Bank executives are chiseled very often by the management gurus at ISB, MDIand other International Management Schools to cope with customer needs and want in the best possible manner and groom themselves with management practices. Old ways may no longer yielding desired results and performance demands creativity and innovativeness in each and every activity in order to excel and stay ahead of the race.

PERFORMING WITH PASSION: CORP BANK STAR ACHIEVERS

"Passion", is a word very close to Ajai Kumar's way of doing business or conducting any activity. There should be passion in doings things, delivering services and in one's overall performance. "Corp-Bank Star Achiever Award"

This has been a unique exercise and a trendsetter of sorts and has given remarkable positive results.

A sense of competitiveness is also important in the workplace. It gives people pride in their work and they will work harder owing to the urge to win or to be better than their competitors.

He thinks that if we want our employees to work harder and serve the customer better, there should be a way to instill a feeling of healthy competition amongst them and then the difference will be visible. True to his thoughts, the internal performance of Corporation Bank has improved tremendously in the past year. The Banks Circle Offices and Zonal Offices are graded in terms of 5-Star rating. This is a unique exercise to evaluate the real performance of the Zones. The Zones are being evaluated based on their performance after giving due weightage to their area of operation, thus bringing every Zone on an equal platform. The concern to achieve higher rating has translated into better and improved performance. The success mantra has now been translated to the branches and the Bank has now introduced Corp-Bank star achiever awards for Corp-Banker who are also performing with passion and humility, for bringing smiles to the customers at branches. This has been a trend setter of sorts and has given remarkable positive results.

BRAND AMBASSADORS: CORP BANKERS

The Bank has increased the visibility levels in the past one year. We at Corp Bank believe that the Corp Bank family of over 14,800 people are the real brand ambassadors of our bank. Corp bankers showcase the variety of products and services to the customers, approach the customers, tell them about the different internet based and mobile based offerings of the Bank.

As the leader of the Passionate Corporation team of 14,800 employees, Ajai Kumar feels that Corp Bank Team, which is known for its commitment, dedication, innovativeness and customer friendliness, will continue to serve its esteemed patrons with passion and humility.

Looking forward

- To become a provider of World Class Financial Services
- To meet Customer expectations through Innovation and Technological Initiatives
- To maintain leadership in inclusive banking
- To enhance stakeholders' value
- To fulfill national and social obligations
- To create an environment, intellectually satisfying and professionally rewarding to the employees
- To emerge as a role model for ethical values and Good Corporate Governance.

BRINGING LIFE TO POWER

PTC India Ltd. (PTC), the leading provider of power trading solutions in India, was established in the year 1999 as a **Government of India initiated Public-Private Partnership**, with a primary focus to get investments in the power sector.

DEEPAK AMITABH
CHAIRMAN & MANAGING DIRECTOR

A unique aspect related to the emergence of PTC has been the association of well-established organizations in power generation, transmission and finance, as promoters namely NTPC, PGCIL, PFC and NHPC. PTC was set up **to establish a power market and act as a credit mitigating agency** for mega power projects through long term power purchase agreements and back-to-back power sale agreements to various state utilities. This objective had been viewed as an opportunity **to encourage private sector investment** in power sector to enable quick capacity addition and **create an electricity market**.

A **pioneer of power trading**, PTC introduced number of innovative products and services over the years resulting in exponential growth of trading in electricity thus leading to recognition of Power Trading as a distinct activity in the Electricity Act 2003.

PTC has also been authorized by Government of India as **nodal agency for cross-border trade in electricity with Bhutan and Nepal**. PTC has been **successfully managing this sensitive role** since year 2002. A very important point worth noting is that commercial power transactions between the countries have been managed through **timely & prompt payments to Government of Bhutan without any commercial dispute**, so essential for managing harmonious and friendly relations with our neighboring countries. This trade has been the **most significant revenue earner for Bhutan** and has transformed its economy positively.

Similarly, transactions with Nepal also have been to the mutual benefit of both the sides without any difficulty. PTC has thus demonstrated its capability to manage cross border trading transactions to the utmost satisfaction of both sides. PTC is also endeavoring to repeat the success of cross-border power trading with other neighboring countries like Bangladesh, Pakistan and Sri Lanka.

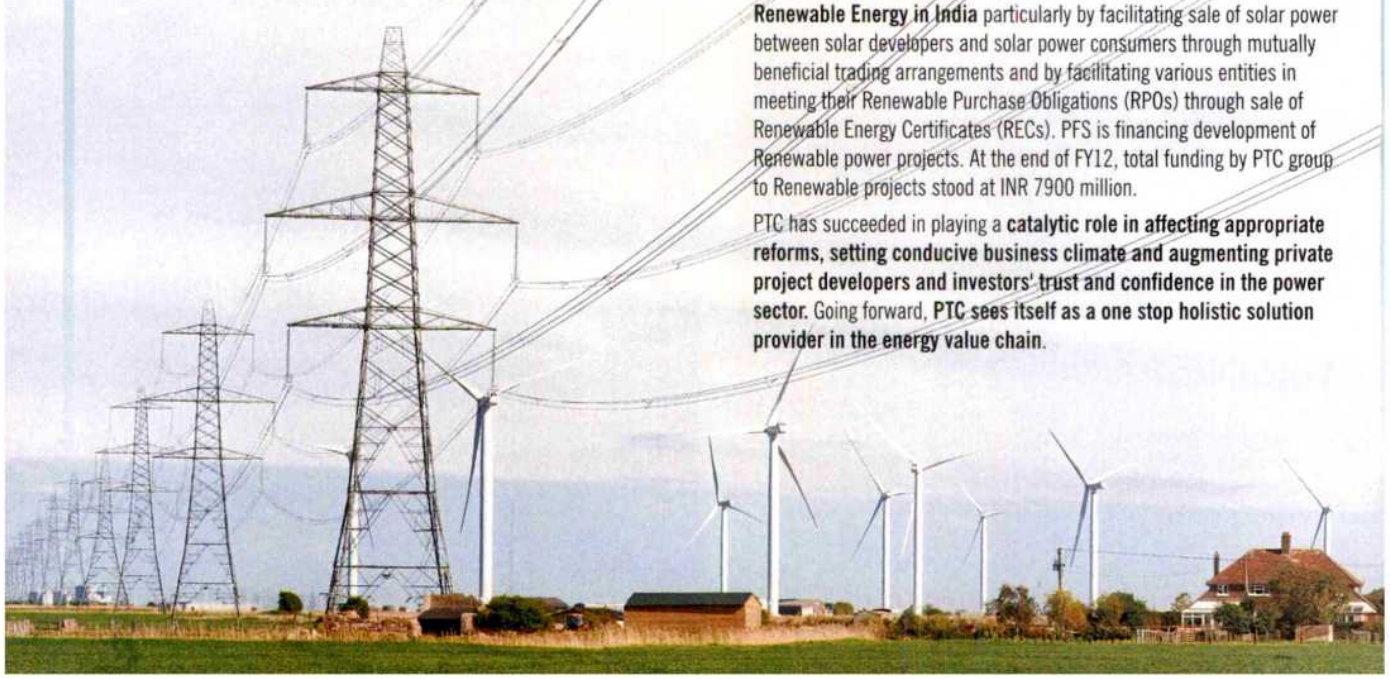
PTC has been the **market leader for more than 10 years** despite intense competition and its market share is presently ~43%. Its trading volumes in 2011-12 have been ~24 BUs. The **key differentiators from its competitors** have been: ability to conceptualize new products/services, speed of delivery from concept to market, innovative solutions, strong financial strength, credit-worthiness etc. Market reputation, image, trustworthiness and deliverability as perceived by clients are vital in this kind of business- and clients continue to trust PTC.

PTC is also into financing of power projects through its subsidiary PTC India Financial Services Ltd (PFS), which is NBFC approved by the Reserve Bank of India with status of Infrastructure Finance Company – a position enjoyed by only four financial institutions in the country. PTC today is not just the leading power trader in the country, but through PFS, is also the **co-promoter of 1st and the market leader National Power Exchange** in the country i.e. Indian Energy Exchange. IEX currently has more than 90% market share.

PTC continues to facilitate private investment in generation (one of the objectives of the company) and has the largest portfolio of projects >14500 MW aggregate capacity under long-term Power Purchase Agreements (PPAs). These **projects are strategically located across the geographical regions of India** making PTC to offer competitive power anywhere in India or to neighboring countries.

PTC group is also playing an **important role in development of Renewable Energy in India** particularly by facilitating sale of solar power between solar developers and solar power consumers through mutually beneficial trading arrangements and by facilitating various entities in meeting their Renewable Purchase Obligations (RPOs) through sale of Renewable Energy Certificates (RECs). PFS is financing development of Renewable power projects. At the end of FY12, total funding by PTC group to Renewable projects stood at INR 7900 million.

PTC has succeeded in playing a **catalytic role in affecting appropriate reforms, setting conducive business climate and augmenting private project developers and investors' trust and confidence in the power sector.** Going forward, **PTC sees itself as a one stop holistic solution provider in the energy value chain.**



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Tomorrow is Yours

With the eco-friendly fuel - Natural Gas

Ushering a Greener Future

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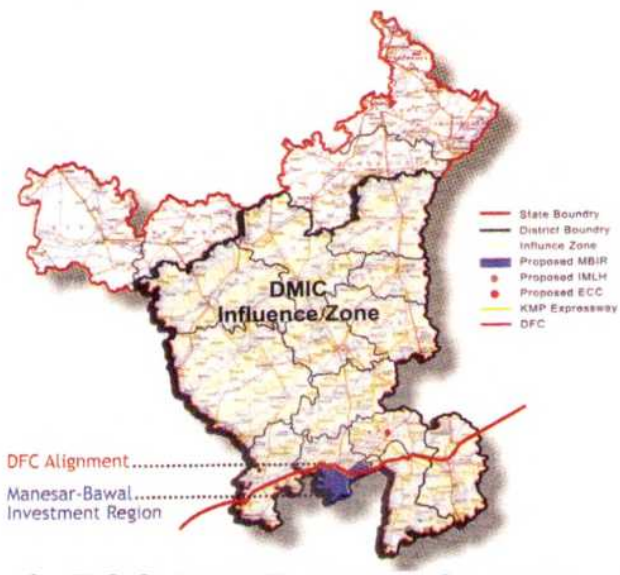
GAIL (India) Limited

India's Youngest Maharatna

CONNECTIVITY CONNECTS INVESTMENT

Haryana is a key constituent of the Delhi Mumbai Industrial Corridor (DMIC) Project initiative, which covers nearly 66 per cent of the total area of the state, including the Sonipat region. Under this project initiative, an Investment Region would be set up at Kundli-Sonipat.



1,500-km Freight Corridor

Connectivity holds the key to growth of any belt and acts as a magnet for attracting investment. Creation of a world-class infrastructure has been top priority of the Haryana Government.

"We have already brought the metro to Gurgaon. Work on the metro project for Faridabad is in progress. Foundation of Bahadurgarh link has also been laid. Study has also been initiated for a Rapid Rail Corridor between Delhi-Sonipat-Panipat. Our other initiatives include upgradation of national and state highways, new inter-city connectivities, intra-city transport etc", the Chief Minister, Mr Bhupinder Singh Hooda said.

The Kundli-Rai area, situated along the NH-1 axis, is set to grow as a highly preferred investment destination with the completion of the Delhi Western Peripheral Expressway, or Kundli Manesar Palwal (KMP) Expressway Project. The 135-km-long, four-lane expressway will provide seamless connectivity across NH-1, NH-2, NH-8 and NH-10 passing through Haryana without travelling through the National Capital of Delhi.

Various theme hubs like Leisure Hub, Sports Hub, Media Hub, Fashion Hub, Bio-science Hub, Entertainment Hub, Worldtrade Hub and Leather Hub are planned to be developed along the KMP Expressway.

The expressway has been divided into three sections of 45 km each. Flyovers are being constructed at places where the expressway crosses national highways. The expressway connects Kundli (Sonipat) on NH-1, Bahadurgarh (Jhajjar) on NH-10, Manesar on NH-8 and Palwal on NH-2. The project's scope of work includes the construction of 220 major structures, including bridges, grade separators and underpasses. Sixteen overpasses and underpasses at crossings on state highways and major district roads; seven overpasses, nine underpasses and 27 underpasses at crossings on village roads; 33 agricultural vehicular underpasses; 31 cattle crossing passages; 61 pedestrian crossing passages; four railway over bridges; 18 major and minor bridges; cross drainage works (culverts) at 292 locations; two truck parking spaces and four bus bays will also be constructed.

The DMIC would open up new opportunities of investment and growth in the state. It is one of the largest infrastructure projects undertaken in India entailing an investment of USD 90 billion (Rs 4,32,000 crore) with financial and technical aids from Japan, covering an overall length of about 1,500 km between the political capital and the business capital of India, i.e. Delhi and Mumbai. It is an ambitious project aimed at developing an industrial zone spanning across six states in India.

"Haryana has taken extensive steps to impart quality higher education and produce such students as are able to face global challenges".

BHUPINDER SINGH HOODA
Chief Minister, Haryana

A NUCLEUS OF HIGHER LEARNING

Education, and particularly higher education, is vital for the growth of industry. Knowing this full well, the Haryana Government, led by the Chief Minister, Mr Bhupinder Singh Hooda, is giving top priority to higher education in the state.

With a focus on excellence, the state government has also been laying emphasis on expansion of institutions of higher learning.

A number of higher learning institutions have been set up in the district in the last eight years. This has made it the first choice of youngsters for education.

The Rajiv Gandhi Education City (RGEC) at Kundli in Sonipat where world class educational institutions are being set up bears testimony to the above fact. Being developed on the pattern of Oxford University, RGEC is envisaged as a hub for higher learning and a centre for research in cutting edge technologies such as nanotechnology, biotechnology, genetics engineering and medicines etc.

Foundation stones of 10 following institutions laid-Bharti Vidyapeeth University(Pune) has 29 constituent units under its umbrella. Ashoka University would be set up in collaboration with the School of Engineering and Applied Sciences.

Skyline Education Group would offer special courses in business management subjects like international business, marketing, information systems, tourism, human resource management and insurance. FORE School of Management would be developed over an area of 7.38 acres. Manav Rachna University, being set up under the Haryana Private Universities Act, 2006, would provide faculty of medicine, engineering, technology and management studies.

The NC Group of Institute would set up NC College of Engineering and Research. This institute has up to 90 per cent placement of students. The Sonipat Hindu Educational and Charitable Society would set up Hindu School of Architecture. RIMT Technical Campus would offer technical and management courses. Shri Balwant Institute of Technology is affiliated to the Deenbandhu Chottu Ram University of Science and Technology, Murthal, and would offer post graduate courses in management and engineering. SRM University would be set up by South Indian SRM Group of Institute. Equipped with modern facilities, the university would offer courses in medical, dental, pharmacy, nursing, engineering, technology and management.

The state government is also establishing the National Law University in RGEC. It will be a state-funded university and will be raised with government grant of approximately Rs 119 crore.

The Bhagat Phool Singh Mahila Vishwavidyalaya, Khanpur Kalan at Sonipat is the first women university in the north India, which is providing world class education in all streams up to the level of PhD. Presently about 6,700 girls are getting education in the university.

INDIAN STEEL INDUSTRY WOULD BE MAJOR GROWTH DRIVER

Steel Authority of India Limited (SAIL) is India's largest steel producing company. With a turnover of Rs 50,348 crore, it is among the seven Maharatnas of the country's Central Public Sector Enterprises. Sri Chandra Shekhar Verma, widely acclaimed for his prudent financial management, took over as chairman on June 11, 2010. Excerpts...

Last year was disappointing for the global steel industry? Can we look forward to better times?

The steel industry globally faced a challenging period with the Euro Zone crisis which persisted throughout 2012. According to WorldSteel (WSA) report, the apparent steel use in 2012 increased at the slowest pace since 2009. In Europe particularly, price volatility through the steel value chain and over-supply resulting from excess capacity made a dent in the industry's profits. Crude steel production in China grew by 3.1% in 2012, the lowest since 2007, with most of Chinese mills experiencing a steep fall in profits. In 2013 however, a recovery is expected in global steel demand, led by emerging economies of the world. Signs of improvement in market sentiment are substantiated by the fact that the world average rate of growth for finished steel products in 2013 stood at 2.9% as against 1.2% in 2012.

Domestic steel demand was rather muted last year. When do you expect it to improve?

Being a part of the global economy, India cannot remain isolated from the difficult environment faced by iron and steel industry worldwide. Nevertheless, Indian steel scenario has been much better than its global counterpart. In FY 2012-13, crude steel production in India touched 78.19 million tonnes (MT), up by 5.3% over last fiscal. Real consumption of finished steel also grew by 3.3%, at 73.3 MT. With several expansion plans fructifying this year, the domestic capacity is expected to touch 100 MT of crude steel by the end of current fiscal. These indicators point to sustained improvement in the Indian iron and steel industry in the near future. As per WSA estimates, steel demand in India is likely grow by 5.9% to 75.8 MT in 2013 as monetary easing is expected to further investment activities. Likewise, steel demand is expected to further grow at 7% largely because of reform measures aimed at narrowing the fiscal deficit and attracting the foreign direct investment.

What makes the Indian steel market different from its global counterpart?

The Indian steel industry, which is globally ranked fourth in terms of production, is still in a growing stage and is expected to touch 149 MT by the end of 12th 5-year plan. Even the most conservative WorldSteel estimates forecast crude steel production level of 172 MT by 2020-21. India still holds a long-term growth story and the Indian steel industry would be one of its major drivers of growth. Therefore, I believe that India is a demand centre and hence it offers immense scope in greater steel usage, with per capital steel consumption increasing from 38 kg in 2005-06 to 59 kg in 2011-12. Compared to the world average of 215 kg and China average of 460 kg, Indian steel makers can look forward to and be assured of a regular growing demand. In fact, India is expected to reach 200 MT steel making capacity by 2020 as against 90 MT at present. India has all the potentials of a growing market as against the saturated markets in most of the regions globally.

Is SAIL geared to meet emerging needs of the domestic market?

Currently, SAIL is pursuing a massive modernisation & expansion plan, estimated at an expenditure of Rs 72,000 crore. Post modernisation, SAIL would continue to maintain its dominance in the Indian steel industry, by installing a hot metal capacity of 23.4 MT. Moreover, our product basket would be enlarged with special end use products such as plates/ pipes in higher API grades, universal beams/heavy beams in higher sizes to support increasing infrastructural requirements, special grades of rails & longer lengths in 520 meter panels, rounds for engineering purposes, wider plates up to the size of 4300 mm as well as auto grade CR products. Towards the end of the decade, SAIL plans to have a steel-making capacity of about 45 MT, which is likely to make it one of the top steel companies globally.

With NTPC,
it's not only about
being a Maharatna.
It is about creating
a greener planet.

At NTPC, best performance goes hand in hand with best practices. NTPC is not only India's largest power producer, but also has consistently endeavoured towards maintaining the ecological balance. With its various environmental initiatives, NTPC has shown its dedication towards creating a greener earth, a better environment. With NTPC, it's never only about generating power, it's about transforming a billion lives.

• To invest in R&D activities and climate change studies • Over the years, the Ash Utilisation level has reached from meagre 0.3 million tonne in 1991-92 to 26.03 million tonne in 2010-11 • NTPC's Dadri Project has been conferred with the Green Globe Foundation Award • IPMA award for Simhadri Project in the year 2005, for Vindhyachal Project in the year 2008, for Dadri Project Stage-2 in the year 2011 • ISO/NABL 17025 certified labs • Environment management plan and dedicated environment monitoring for each project • Dry ash extraction and disposal system • Renovation and Modernisation of aging power plants

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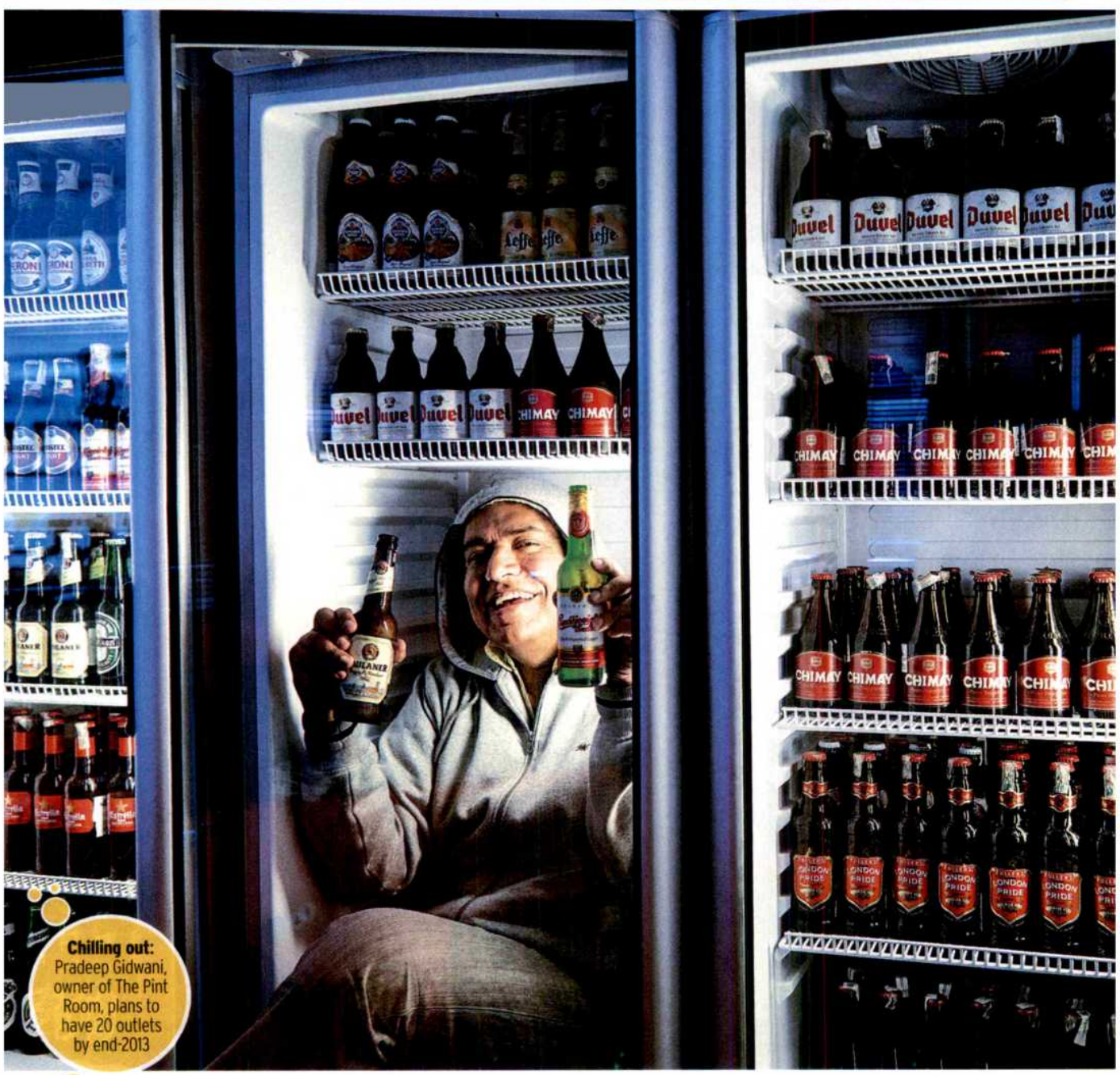
NTPC
POWERING GROWTH

LAST BUT NOT LEAST

BOOKS 122 CAREERS 124 PEOPLEBUSINESS 130



Chilling out: Pradeep Gidwani, owner of The Pint Room, plans to have 20 outlets by end-2013

VIVAN MEHRA/www.indiatodayimages.com

Buzzed on Beer

Two entrepreneurs hope to make beer as ubiquitous as coffee in India.

By **DEARTON THOMAS HECTOR**

Pradeep Gidwani is a man with a dream. Many would call it a pipedream, but Gidwani insists it can come true. He wants to make beer as easily available and as widely consumed as coffee in India.

To realise his dream, the former CEO of two leading beer brands, Carlsberg India and Foster's India, has turned entrepreneur. He is founder of The Pint Room, begun in July last year, which already has five outlets – two in Mumbai, one each in Delhi, Panchkula near Chandigarh, and Bangalore – and intends to raise their number to 20 by the end of this year. "We want to be the Starbucks of beer," he says.

Indeed, The Pint Room is his second effort. His first started in December 2010, when he launched The Beer Café in partnership with Rahul Singh, former Executive Director (Apparel) at sportswear retailer Reebok India, in Delhi's Vasant Kunj. "My idea of a beer café is one which looks less like a bar or a pub, and more like a coffee shop," says Gidwani. "I want to create a space where conversations can be had over beer, without loud music or dim lights." He joined hands with Singh because of the latter's wide experience in retail. Today, The Beer Café is competition. The partners developed differences and ultimately Singh bought the brand from Gidwani. What went wrong? "Pradeep is passionate about beer," says Singh. "But I'm a focused businessman. This is just a business for me."

A major difference arose over how the chain should expand – Gidwani wanted to open in all major Indian cities, while Singh insisted on

High Spirits: Rahul Singh of The Beer Café expects his revenue to quadruple this year

ADITYA KAPOOR

NUMBER OF COFFEE CHAIN OUTLETS

Cafe Coffee Day
1,497

Barista Lavazza
200

Costa Coffee
108

Starbucks
12

Source: Industry

concentrating on North India. The Beer Café now has six outlets – all of them in the National Capital Region and Chandigarh. Singh too wants to touch 20 cafés by the end of the year.

But Singh shares Gidwani's conviction that beer could outsell coffee one day. His outlet in Delhi's Connaught Place is sandwiched between two coffee shops – one run by the coffee chain Café Coffee Day and the other by its rival, Costa Coffee. "I want to take away their market share," he says.

Are the two men serious? Café Coffee Day alone has around 1,500 outlets. And India is hardly a beer drinking country. Industry estimates put India's per capita annual beer consumption at no more than 1.5 litre. The corresponding figure for neighbouring China is 35 litre. The beer market in India is valued at around ₹32,000 crore and has been growing at a compound annual growth rate of 12 per cent for the last three years.

Gidwani is not fazed. "Before the coffee chains established themselves, sceptics used to say we were a tea drinking nation. Now everyone can see the success of coffee," he says.

How are the fledgling beer chains doing? Both The Pint Room and The Beer Café have around 40 brands on offer from local ones such as Kingfisher to imported premium ones such as Chimay from Belgium and Estrella Damm Inedit from Spain. Prices range from ₹100 to ₹800 a bottle. While Gidwani is reluctant to discuss figures, Singh says he had a turnover of around ₹5 crore in 2012/13, with a profit margin of 20 per cent. Mayfield Fund, a California-based private equity firm, has pumped $5 million into The Beer Café for a minority stake, and Singh expects his revenue to quadruple this year as, flush with funds, he opens more outlets.

Random customers spoken to gave both chains the thumbs up. "They serve beer at the exact temperature that it should be and in the right glasses or mugs," says Ishaan Oberoi, hotelier and self confessed 'beer fanatic', about The Pint Room. So too Himanshu Shekhar, who heads operations at a maker of power monitoring gear, says he frequently takes his clients to The Beer Café.

But sceptics remain unconvinced. "The success of these chains is largely an urban up-market phenomenon," says Samar Singh Sheikhawat, Senior Vice President, Marketing, United Breweries. "In terms of scalability, I don't see much potential. But it is good for the industry." Given the plethora of restrictions governing the sale of beer and spirits, they also expect the bureaucracy to prove a hurdle to rapid expansion. "It's going to be a bumpy ride. It's not easy to crack the market because rules are different in different states," says Ankur Bisen, Vice President and Head of Retail and Consumer Products at advisory services firm, Technopak. ◆

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NANDAGOPAL RAJAN

The Contact Killers

Digitise your contacts so you don't have to transfer them manually to your new phone

When you buy a new phone, the biggest hassle is transferring your contacts and other data to it. It is an even bigger problem if you are also switching operating systems. I know people who have spent hours writing down all the numbers in their old phones and then entering them into the new phone. This is why our contacts have to be in sync with the times, quite literally.

To begin with, start backing up the contacts on your phone to a cloud account. No, you don't have to buy an account or sign up for a service for this. Just back up your contacts to your Gmail account, for instance. Now all you have to do on your new phone is add this account and press sync for the contacts to be populated. Most new smartphones have this option. Backing up to the cloud makes even more sense as with this you can have the same contacts on multiple devices and even access them directly from a PC. Plus, with device cycles coming down to as little as six months, many of us will be changing phones at short intervals. You cannot possibly sit down and re-enter your long list of contacts into your new device every six months.

If your contacts are in Outlook, or a phone that cannot be synced online, just export them in a .CSV or vCard format that can be loaded to your Google or iCloud contacts. While this may sound complicated, it is actually quite easy to execute. And along with the cloud it is always better to back up your smartphone with a PC at regular intervals. This way you will have an easily retrievable digital back-up of your contacts as well as a record of your emails and SMSes. All platforms offer apps, both free and paid, that let you back up contacts on the phone to a cloud account which can then be transferred to Gmail or iCloud.

SANTOSH

For those of us who have thousands of contacts on our phones, it is only natural to end up with a lot of duplicates and ghosts – or incomplete contact information – over the years. Now, apps let you find and eliminate duplicates. Some even merge multiple contacts into one, which is especially useful if you have saved a person's phone number, address and email id in separate entries. I recently used Contact Duster Pro and found that about 30 per cent of my contacts were duplicates. However, while the free apps will show how many doubles you have, the actual cleaning up takes place only when you upgrade to a paid version.

Those struggling to maintain a clean contact book on the phone also tend to struggle with a lot of physical business cards in office drawers and files. Often, you are unable to find a business card when you need it. This is why it makes sense to digitise all contacts, or keep just digital contact information. As soon as someone gives you his/her business card, pull out your phone and click a photo of the same. It is better if you use apps like Evernote Hello or CamCard that read the text on the picture and enter the same into your phone's contact book. Hello goes a step ahead and links the new contact to its LinkedIn account. There is LinkedIn's own CardMunch that does this job much better, but it is strangely not available in India. But don't be overconfident while using these apps. Since they use text recognition, you need to be careful and double check that the app has read all the info on the card correctly. Choose a card scanner app that backs up to a cloud account you can access from beyond the mobile device too.

Digital contact cards are, undoubtedly, the future. So much so that many cards now come with QR codes that give all the information needed about the contact, while also offering a portal to your online identity or website. In this digital age, a business card that carries just a name and a QR code is good enough. Even that can be avoided with technology such as Near Field Communication, which can transfer the contact-related information digitally from one phone to another by just tapping the two devices against each other. ◆

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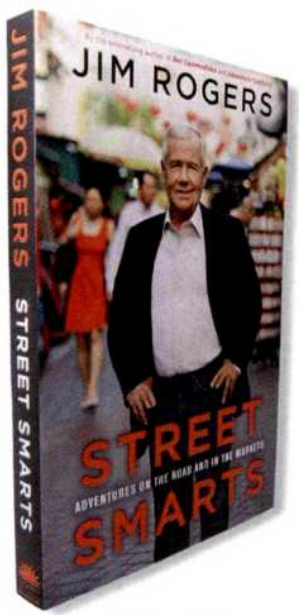
Investment Genius Looks Back

Jim Rogers on his own life and why he is betting on Asia, especially China



Street Smarts: Adventures on the Road and in the Markets
By Jim Rogers
Crown Business
Pages: 272; Price: ₹599

Would you invest in North Korea or Myanmar? Many would laugh off such a question. But not investment legend Jim Rogers.

"I am dying to find a way to invest in both North Korea and Myanmar. Major changes in these two countries are among the most exciting things I see right now, looking to the future," he says in this book, arguing that both countries will eventually have to reform and open up under global pressure. And when that happens it will provide great opportunities to multiply wealth. Incidentally, Rogers was one of those who warned about the US housing bubble – which caused the 2008 financial meltdown – as early as 2003.

However, North Korea and Myanmar will have to wait. For the time being, Rogers is betting on the rest of Asia, and China in particular. The US powerhouse is on a decline, he says, crumbling under the burden of debt and weak, directionless leadership, while China is ascending. Insights gained during his travels across the globe have convinced him that "China was the world's next great nation".

Rogers puts his money where his mouth is. Sensing the Asian emergence, he not only sold his mansion in the US and relocated to Singapore in 2007, but also insisted his two daughters learn Mandarin in primary school.

The book starts with a young Jim Rogers recounting his days as a student at Yale and Oxford universities, and moves on to his first steps into investment. Rogers' recollections from the time when he did not have money to buy a pair of shoes for an Oxford boat racing event, to when he partnered another investment legend, George Soros, in setting up the hugely successful Quantum Fund, to his later life as a teacher and writer, is as good a read as any. Now in his 70s, Rogers made a big enough pile to be able to retire from active fund management at 37.

So, what are the asset classes to invest in now, in Rogers's view? The answer is commodities, especially farm produce. "The current bull market in commodities started in 1999 ... Like all bull markets it will end in a bubble. But the bull market has years to go," he says. In contrast, he feels equities have run their course. "Soon, stockbrokers will be driving taxis ... while farmers will be driving Lamborghinis."

Among his many investment tips, Rogers says: "The way to become a successful investor is by investing only in what you yourself have a wealth of knowledge about." At another place, he repeats: "To be lucky, do your homework."

But when it comes to India, Rogers himself could have done a little more homework. Consider these observations: "All growth rate figures are unreliable. It is stupefying to me that India could claim to have a clue to what is going on even in India, much less in China or in the US" or "When it comes to growth rate, Indians base their numbers on what China is reporting, making sure that theirs are better than, or at least in line with, China's." Really?

His assessment of Indian society is even more baffling. "It (India) is a country with a Muslim minority but is still, as home to a billion people, one of the larger Muslim countries in the world. And the Muslims and the majority Hindus continue to slaughter one another." We can give such observations a pass and digest the stuff about which he truly has a "wealth of knowledge". ◆

SARBAJEET K. SEN

The US powerhouse is on a decline, says the book, crumbling under the burden of debt and weak, directionless leadership, while China is ascending

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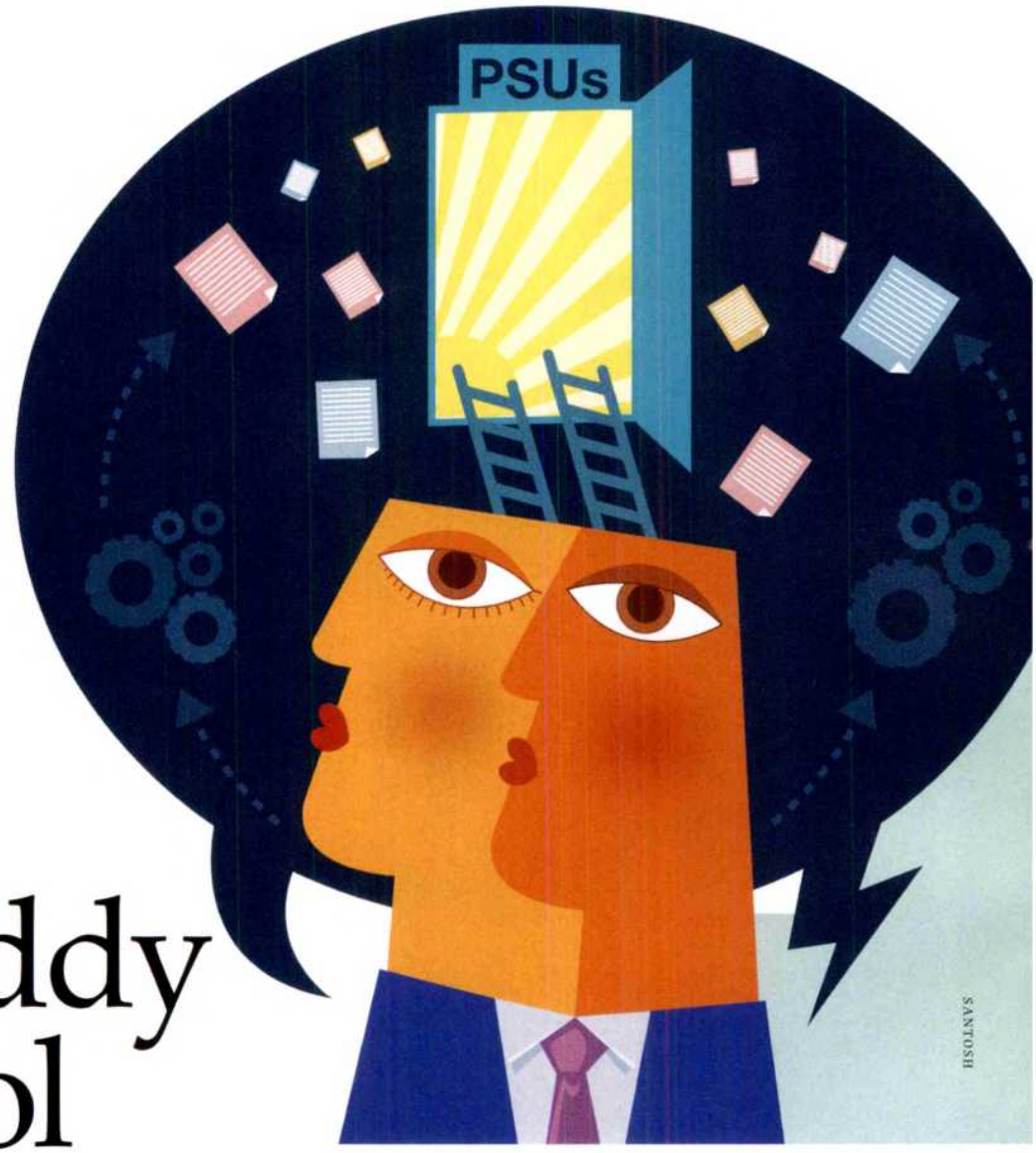


Daddy Cool

Jobseekers are flocking to staid old public sector units, many of which now pay better than their private counterparts, and offer security as well.

By MANASI MITHEL

When Charles Sabbithi gets his undergraduate degree from the National Institute of Technology, Warangal, he has a choice. He can join a private pharmaceutical company or opt for a government-owned oil explorer instead. The 21-year-old student says he is veering towards the public sector company. The reason: Oil and Natural Gas Corporation (ONGC) is offering him a higher package, including house rent and medical benefits for his parents and siblings. "The pay package I'm getting with ONGC is almost double of what Dr Reddy's Lab is offering me," he says.

Sabbithi is one of thousands of Indian students opting for public sector jobs over the private sector because of more attractive financial packages. With the economy in the throes of a slowdown and private sector hiring slowing this year, an increasing number of graduates are also turning to the public sector for job security. Jobs in core sectors such as manufacturing and energy, as well as other sectors such as banking are a major attraction on campuses today. An ASSOCHAM student survey, conducted between February and March, found 88 per cent of respondents preferred the public to the private sector. "Some public sector units might lack high-end infrastructure and facilities provided by their private sector counterparts," says Aditya Narayan Mishra, President, Staffing, and Director-

Marketing at Randstad India, a human resources services provider. "But they make up with benefits for employees like job security. Now, with the Sixth Pay Commission, salaries for government jobs have become more attractive, too."

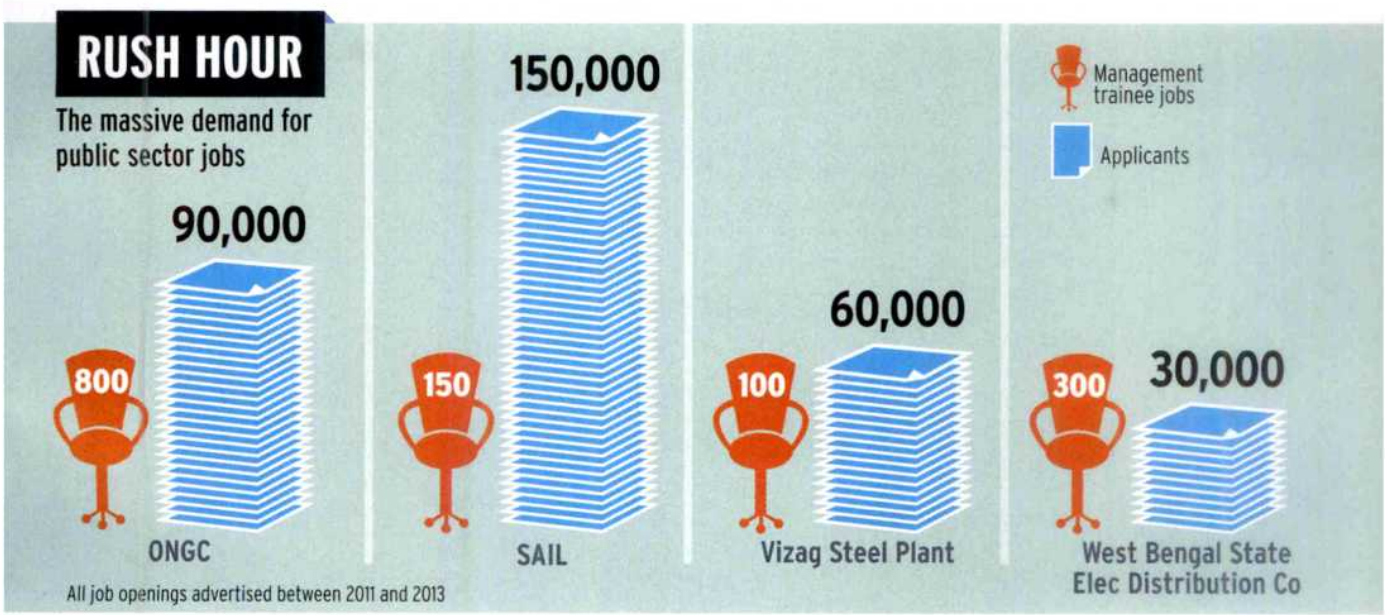
The numbers are telling. Gaurav Basu, who is about to finish his Master's in Geophysics from the Indian Institute of Technology, Bombay, is excited about starting work at Indian Oil Corp. The company is offering him a ₹10.1-lakh package, higher than the average starting salary of ₹7-8 lakh the private sector offers fresh engineering graduates. Most public sector units offer starting salaries of between ₹9-11 lakh.

The non-cash component of public sector jobs was always higher than in the private sector. And after the implementation of the Sixth Central Pay Commission in 2006, salaries are now on a par, public sector ones sometimes even higher than their private sector counterparts. State-owned companies in core industrial sectors such as chemicals and manufacturing offer higher pay packages. But in the infotech sector, private companies still offer higher salaries.

Despite the increase in demand for public sector jobs among students, campus hiring by government companies has not increased proportionately. For example, the number of government companies visiting the Indian Institute of Technology, Bombay, for recruitment this year shrank to four from 13 in 2009/10. The fall is partly because of a 2012 public interest litigation filed in the Chennai High Court seeking a ban on campus recruitment by public sector companies on the grounds that the practice violated public employment policy. The court later lifted the ban. "The Chennai court's earlier judgment did affect the participation last year where the companies said that they could not visit even if they wanted to," says Sapna Agarwal, Head of Career Development Services at the Indian Institute of Management, Bangalore.

Campus hiring by public sector units is also down because they prefer to use Graduate Aptitude Test in Engineering (GATE) scores or national entrance exams to hire fresh graduates. GATE is a standardised test to gauge a student's competence in subjects such as engineering and technology. NTPC Ltd has stopped campus recruitment altogether: it used GATE scores for all the 200 fresh engineering graduates it recruited last year. ONGC's campus hires account for only 20 to 25 per cent of recruitment requirements. The company uses a national entrance examination and an interview for the rest of its hiring. "The number of students appearing for the (GATE) exam has risen from 7.5 million to 12.1 million, which is nearly a 60 per cent rise over last year," says Mishra.

Apart from financial packages, the public sector is also luring students with better branding. Companies are playing up their Maharatna or Navratna status to attract new recruits. Maharatna and Navratna status allows state-owned companies to invest up to ₹5,000 crore in new ventures without government approval. "To be a power to be reckoned with in the world, a good brand image is very important," says U.P. Pani, Director of Human Resources at NTPC. It's equally important to be a power with students. ◆



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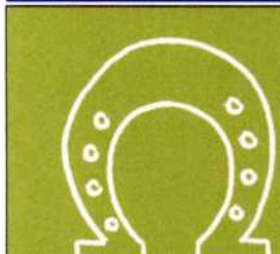

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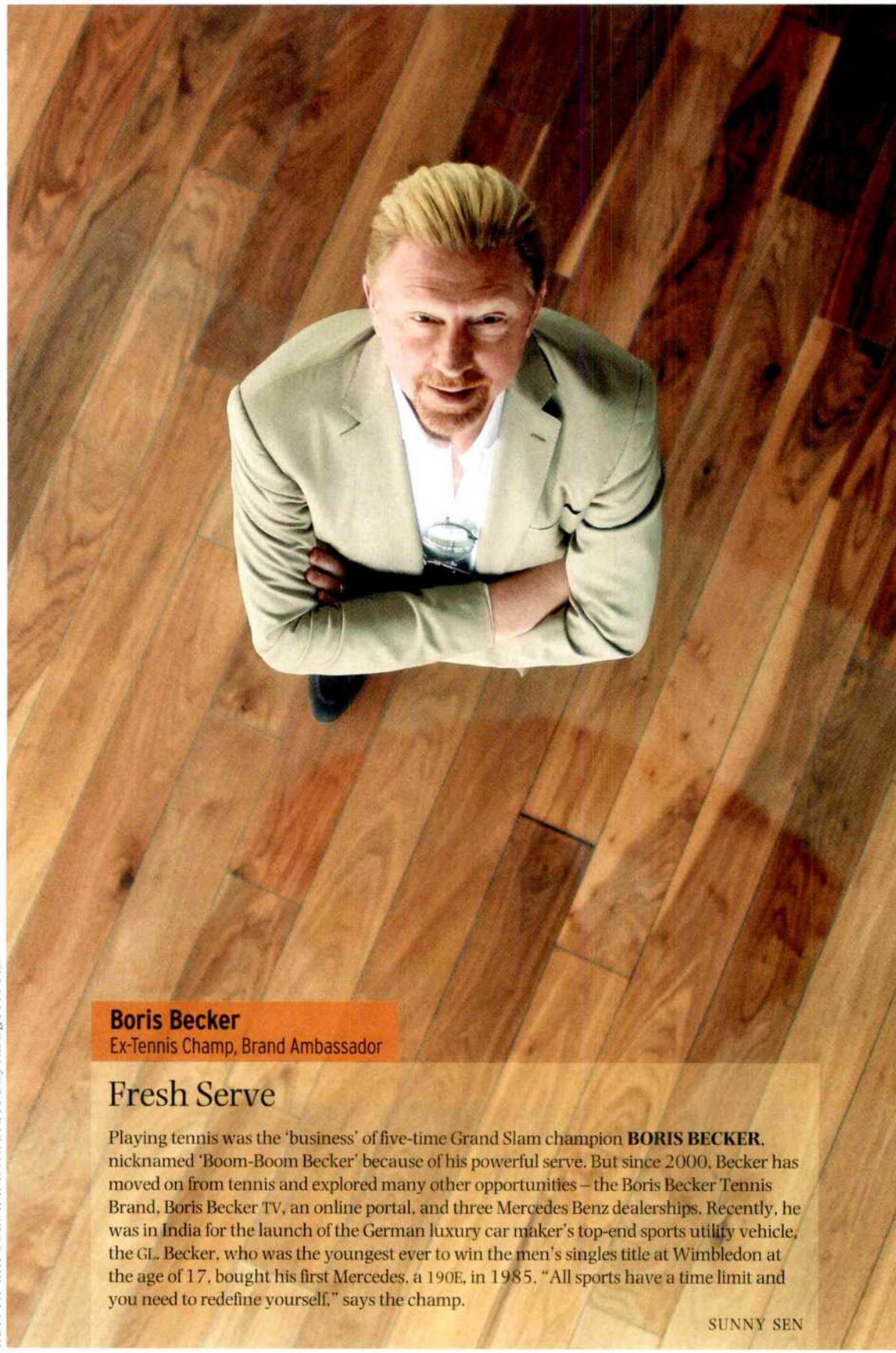

ADITYA KAPOOR/www.indiatodayimages.com

Boris Becker
Ex-Tennis Champ, Brand Ambassador

Fresh Serve

Playing tennis was the 'business' of five-time Grand Slam champion **BORIS BECKER**, nicknamed 'Boom-Boom Becker' because of his powerful serve. But since 2000, Becker has moved on from tennis and explored many other opportunities – the Boris Becker Tennis Brand, Boris Becker TV, an online portal, and three Mercedes Benz dealerships. Recently, he was in India for the launch of the German luxury car maker's top-end sports utility vehicle, the GL. Becker, who was the youngest ever to win the men's singles title at Wimbledon at the age of 17, bought his first Mercedes, a 190E, in 1985. "All sports have a time limit and you need to redefine yourself," says the champ.

SUNNY SEN

Sashwati Banerjee
MD, Sesame Workshop India

Open Sesame

SASHWATI BANERJEE, Managing Director of Sesame Workshop India, is a woman on a mission. Eight months ago, she started Sesame Preschool Centres in seven schools, and plans to scale up the effort to 40 schools in 10 cities by March 2014. Sesame Education works in over 150 countries, providing educational and early childhood development services for children aged two to six years. Banerjee says she believes that for India to develop a global workforce, its children must learn to apply their minds rather than learn by rote. She is starting a new project in collaboration with the Bihar government called 'Learn to Read, Read to Learn'. This will help 40,000 children in 375 schools develop reading skills and speak fluent Hindi. She is also working with the Gujarat and Uttarakhand governments to promote basic practical learning methodologies.

VIVAN MEHRA

VIVAN MEHRA/www.indiatodayimages.com

Controversial Start

It is a sign of the times that soon after **SHASHI KANT SHARMA** was appointed Comptroller and Auditor General (CAG) in May, the Supreme Court agreed to hear a PIL challenging his appointment on the grounds of "conflict of interest". Sharma, 61, is a Bihar cadre Indian Administrative Service officer who spent almost eight years in the defence ministry. He was Defence Secretary from July 2011. Defence – particularly arms procurement – is where the CAG is likely to face its most challenging audits, raising the question whether Sharma might find himself in a delicate situation when the audit covers his tenure there. That is not Sharma's only challenge. He replaces Vinod Rai, who raised the profile of the CAG, until then a low-key audit watchdog, so that it came to be seen as an institutional bulwark against corruption. Media reports claim Sharma was chosen in the hope his reputation of going by the book would restore balance in the CAG's relationship with the government.

SANJIV SHANKARAN

Shashi Kant Sharma
Comptroller and Auditor General of India

PARVEEN NEGI/www.indiatodayimages.com

Clicking with Consumers

Almost 68 million Internet users visit e-commerce sites in India every month, but only 14 million actually shop there. It is this gap that **LATIF NATHANI**, the newly appointed Managing Director of eBay India, hopes to plug. "We spend a lot of time thinking about the triggers and barriers in the consumer's mind to help them make the leap," he says. With over 22 years of experience in companies such as Microsoft and Symantec, Nathani wants to see eBay benefit more from, and increase its impact in, India. Into its eighth year in India, the e-commerce portal already connects 30,000 local merchants to five million consumers all over India. Nathani thinks competition from players such as Flipkart is good, as it "allows the market to expand and the ecosystem to thrive". With mobile being seen as the big driver for e-commerce in India, Nathani says, eBay will focus on greater penetration of its mobile apps. A self-confessed "Bollywood buff" and foodie, Nathani likes to travel and read non-fiction in his free time.

NANDAGOPAL RAJAN

Latif Nathani
MD, eBay

Varun Berry
COO, Britannia Industries

Berry Good Choice

Textile-to-aviation entrepreneur Nusli Wadia has named **VARUN BERRY**, currently Chief Operating Officer at Britannia Industries, as its new Managing Director. Berry will replace Vinita Bali, who trebled the Bangalore-based biscuit maker's revenues in seven years. Berry, an engineer and management graduate, joined Britannia in January. He has 27 years of experience, and has worked with with giants such as Hindustan Unilever and PepsiCo. Says Wadia: "We are preparing for high growth in Britannia's India operations."

K.R. BALASUBRAMANYAM

Good Sport

San Francisco-based entrepreneur, author, speaker, philanthropist, tech visionary and occasional sports coach **VIVEK RANADIVE** donned a new hat when he bought a 65 per cent stake in the US-based basketball team Sacramento Kings for $347 million. Twenty-two years after he left India at the age of 17 with $50 in his pocket, Ranadive founded the $4-billion TIBCO Software. He is said to be overhauling the 68-year-old NBA team, which has been faring poorly. His interest in basketball started when he coached his daughter's school team. An MIT and Harvard graduate, Ranadive was involved in digitising Wall Street in 1980s. He has a black belt in taekwondo.

MANU KAUSHIK

Vivek Ranadive
Chairman & CEO,
TIBCO Software

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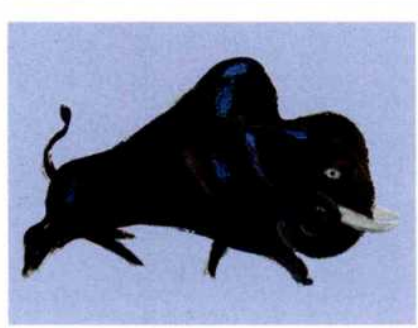

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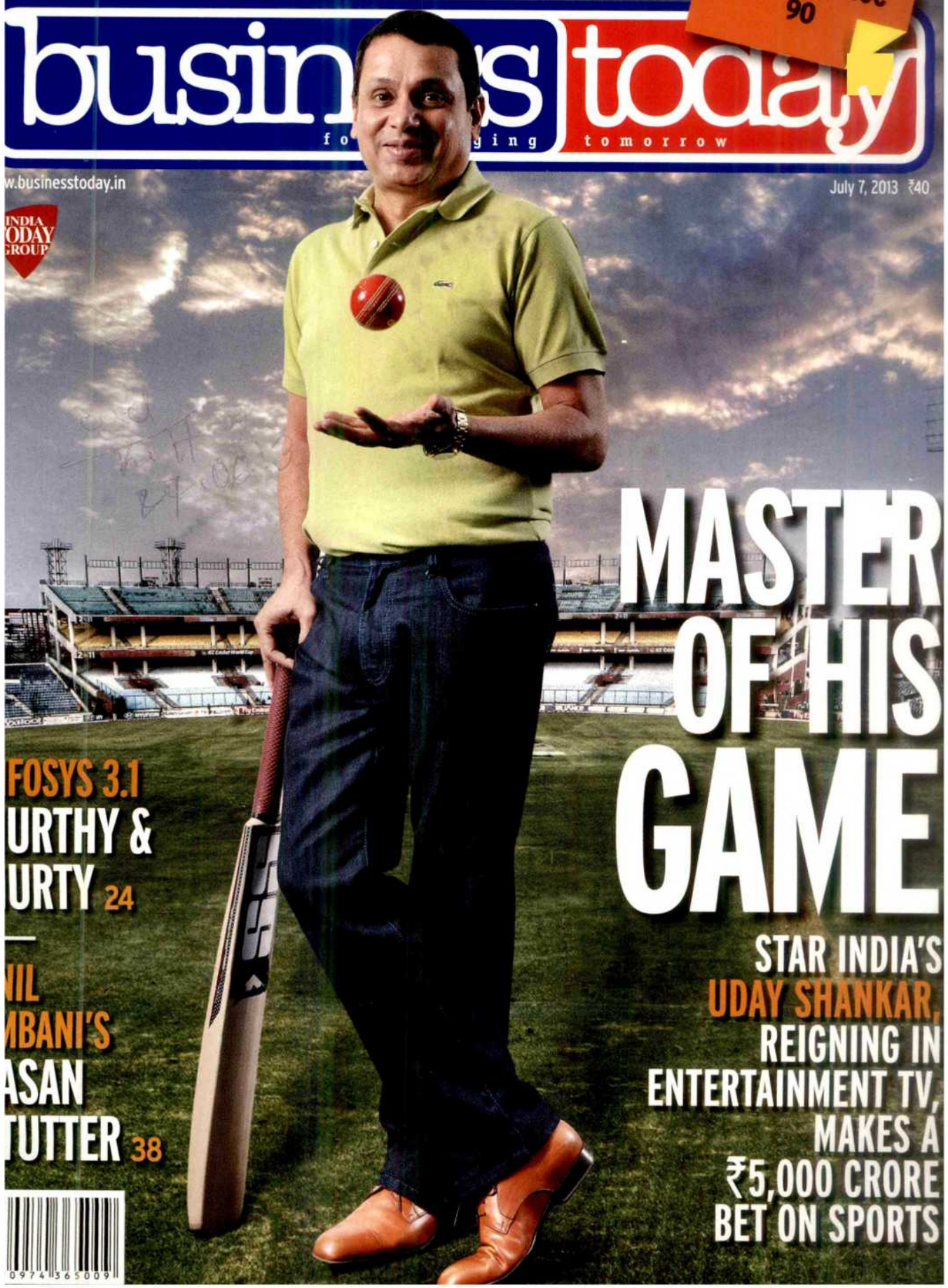

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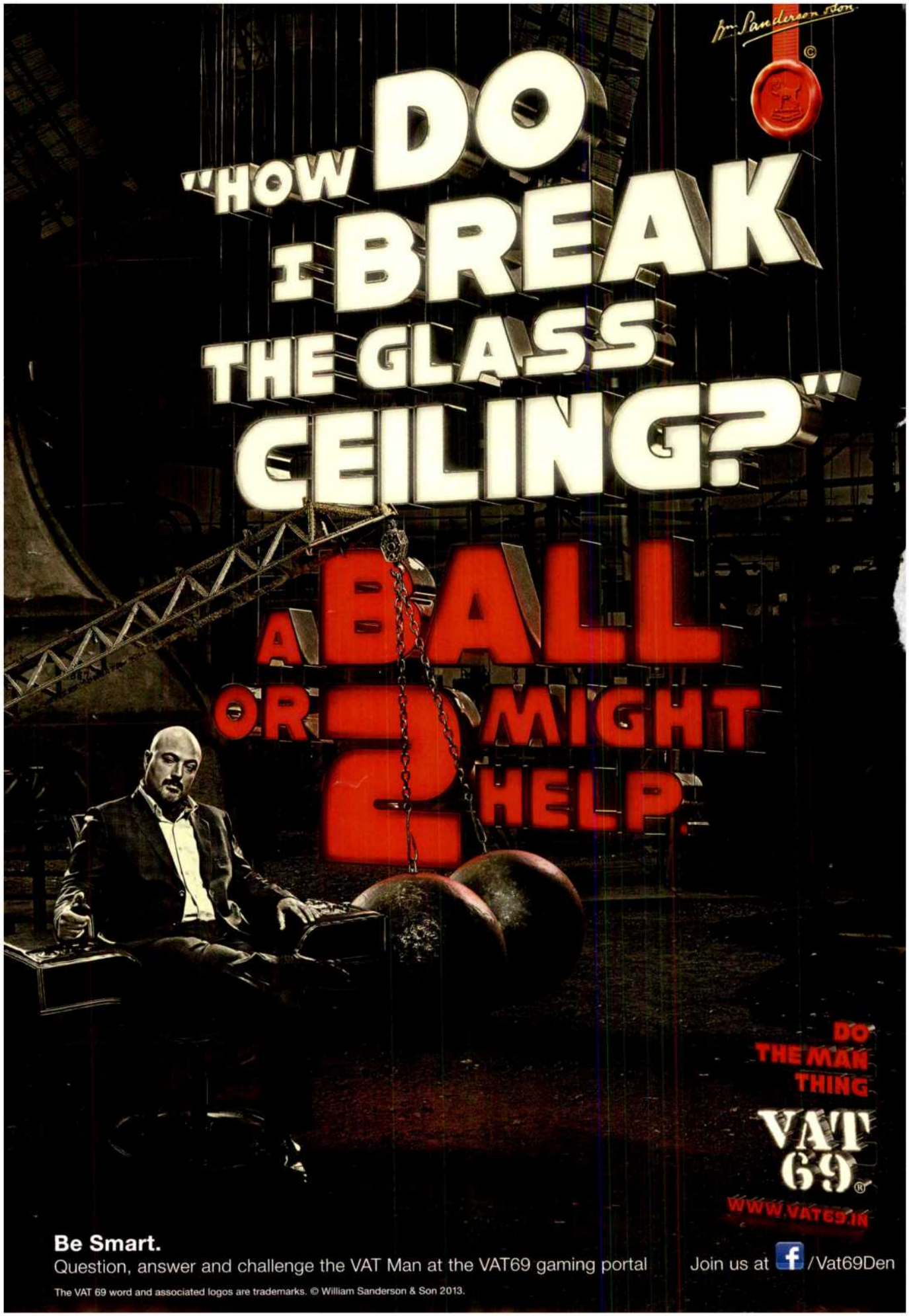
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From the Editor

It's hard to be a couch potato in India because (a) most homes have stiff, unyielding sofas; (b) it's not easy to set yourself up with a six-pack of beer and a bag of chips unless you go on a major shopping expedition; (c) your wife wants to watch Saraswatichandra threatened by a lynch mob on Star Plus; and (d) you will likely get only a re-run of the cricket World Cup 2011 final that the Sri Lankans lost by six wickets, and how many times can you watch Tillakaratne Dilshan being bowled by Harbhajan Singh?

That's the problem. As Uday Shankar, CEO of Star India, says, the only live sports television we watch in India is when eleven of our cricketers play against a team from another country. Unlike the United States, we do not have a national television audience for club or college sports or even state or national tournaments.

As a KPMG-FICCI study said earlier this year, India's total television industry – entertainment, sports and news – was estimated at ₹37,000 crore ($6.5 billion) in 2012 and seen expanding at a compound annual growth rate of 18 per cent to ₹84,800 crore ($14.8 billion) by 2017. Contrast this with the US, where just in major-league sports – football, baseball, basketball and hockey – the five major broadcasters spent over $4 billion in 2012. This year, Disney, CBS, News Corp and Comcast-NBC will together spend more than $6 billion to air just National Football League content.

Star's Shankar has made a huge bet on sports television, beginning with a fat bid for BCCI cricketing media rights until 2017 for ₹3,850 crore ($675 million). Star's parent News Corp, which bought out its 50:50 partner in Asia in ESPN Star Sports for ₹1,800 crore, is gambling that there will be a sharp rise in sports viewership.

Shankar, a quiet, stocky man with close-cropped hair whom you would pass on a busy street without a second glance, has built a formidable TV entertainment empire for News Corp's Rupert Murdoch over the past six years. He opened up with rare candour over two long conversations with me and Senior Editor Shamni Pande. Read Pande and Associate Editor Ajita Shashidhar's compelling cover story starting on page 44.

This fortnight we are also delighted to publish our annual special report on innovation, curated this year by Senior Editor N. Madhavan. From page 60 you will read nine engrossing tales about Indian success stories that have made a difference in other parts of the world. The package is embellished by a column by former Microsoft India chairman Ravi Venkatesan (page 86), excerpts from his new book, as well as an interview with innovation expert Vijay Govindarajan (page 84).

By the way, if you have been reading only the print edition of *Business Today*, you are missing quite a bit. Our team of writers is buzzing on *www.businesstoday.in*, and a steady stream of real-time reports on business, the economy and the markets is supplemented by pithy perspectives at *http://goo.gl/MK7WT*. For us, insight means connecting the dots you cannot even see. We also blog, publish web videos, tweet @bt_india and are active on *www.facebook.com/businesstoday*.

Talking about insight, we strive to look around the corners for new trends and have our ears firmly on the ground listening for the next rumble. In February we ran a provocative and prescient cover story, *Missing Murthy*, about a hurting Infosys that needed to recall its chief founder from retirement. Hey presto! On June 1, the once bellwether Bangalore-based company announced that N.R. Narayana Murthy would return as executive chairman. Not only that – he broke a 32-year-old tradition by bringing his son Rohan in as his executive assistant. Murthy and Murty, as they spell their last names, will each accept only a token ₹1 as annual compensation as they steer a drifting Infosys away from the shoals. Read Executive Editor Suveen K. Sinha's profile of the son, and Associate Editor Goutam Das's take on NRN Redux (pages 24 and 30) and see if you can foretell what comes next.

Chaitanya Kalbag

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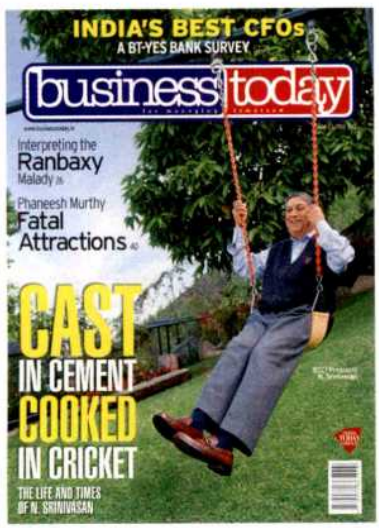

He'll Be Back

Your cover story on N. Srinivasan (*The Company He Keeps*, June 23) is a comprehensive account of a controversial man. While his role as cricket administrator is well known, his India Cements story is less so, and was fascinating to read. He has gone through a rough time lately, but even with his stepping aside from the post of BCCI president, I feel this is not the last time the media will discuss Srinivasan.

Abhinav P., *New Delhi*

CFOs Are Navratnas

Your survey on the best CFOs of the country (*India's Best CFOs*, June 23) was interesting – the individuals themselves, the facts and figures about their companies. The best CFOs are like the navratnas of India. They have made corporate India strong. *Business Today* has done well to recognise their stellar performance at a time when the economy is on its knees.

Akhilesh Kumar Sah, *Faizabad*

Cash Drain

Your story on the Indian arms of multinational companies increasing their royalty payments to their parent companies (*Royal Flush*, June 23) was disturbing. As your report shows there is no way they can justify the additional payouts. Their performance is no better than before, and indeed many of them lag behind their Indian rivals, so the alibi of transfer of superior technology, etc., will not wash. What prompted the government to lift the earlier cap it used to have on such royalty payments? That such high-profile companies like HUL, Nestle and Maruti Suzuki are among the culprits is a sad commentary on their commitment to India.

M.C. Awasthi, *Indore*

Hard Questions

Your story on mobile gaming (*Ahead of the Game*, June 23) companies in India was enjoyable. It was interesting to learn that our companies are creating games for an international market, but I wonder if we can ever compete with some of the global gaming giants. Do we really have the kind of money it takes to develop big-budget games that can hold their own? Also, do our game developers have the necessary cultural and historical knowledge to make games that strike a chord with a foreign audience? Given the pace at which new games keep hitting the market, can we really keep pace? I hope the Indian gaming industry is able to understand the global market and make more money there than it has in the Indian market.

Kartik Mehra, *Mumbai*

Repeat Offender

Many men have been undone by their weakness for women. But Phaneesh Murthy (*Fatal Attractions*, June 23) is a class apart, in that fate gave him a second chance, which very few people get, and he blew it all over again. And even more than his alleged extra-marital affair with Araceli Roiz, which led to iGate sacking him, his unwillingness to take responsibility after he got her pregnant, casts him in a very poor light.

P.L. Pathak, *New Delhi*

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India will lead in Internet protocol traffic growth
But still no operator is ready in India with 3G in all states where they hold spectrum but just in metros. When one moves out of the city it is a huge loss where we get only EDGE signal. - **Shobhit Singh**

More reforms in next few days to spur investment: Chidambaram
So what stopped them earlier? Lack of crisis situation?
- **Indian Economist**

Like dad, Rohan Murty, too, asks for ₹1 as annual salary
Poor dad, poor son - **Venkatesan Sundaram**

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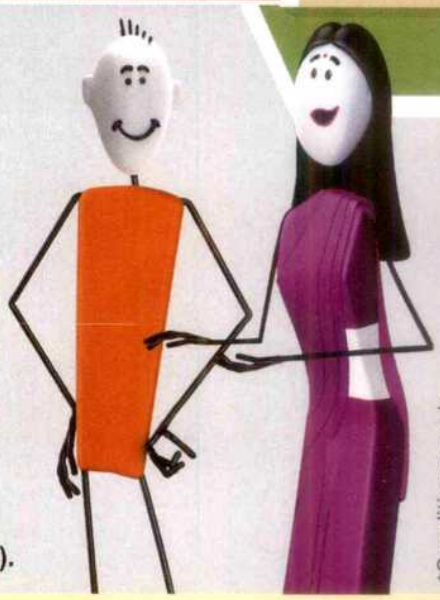

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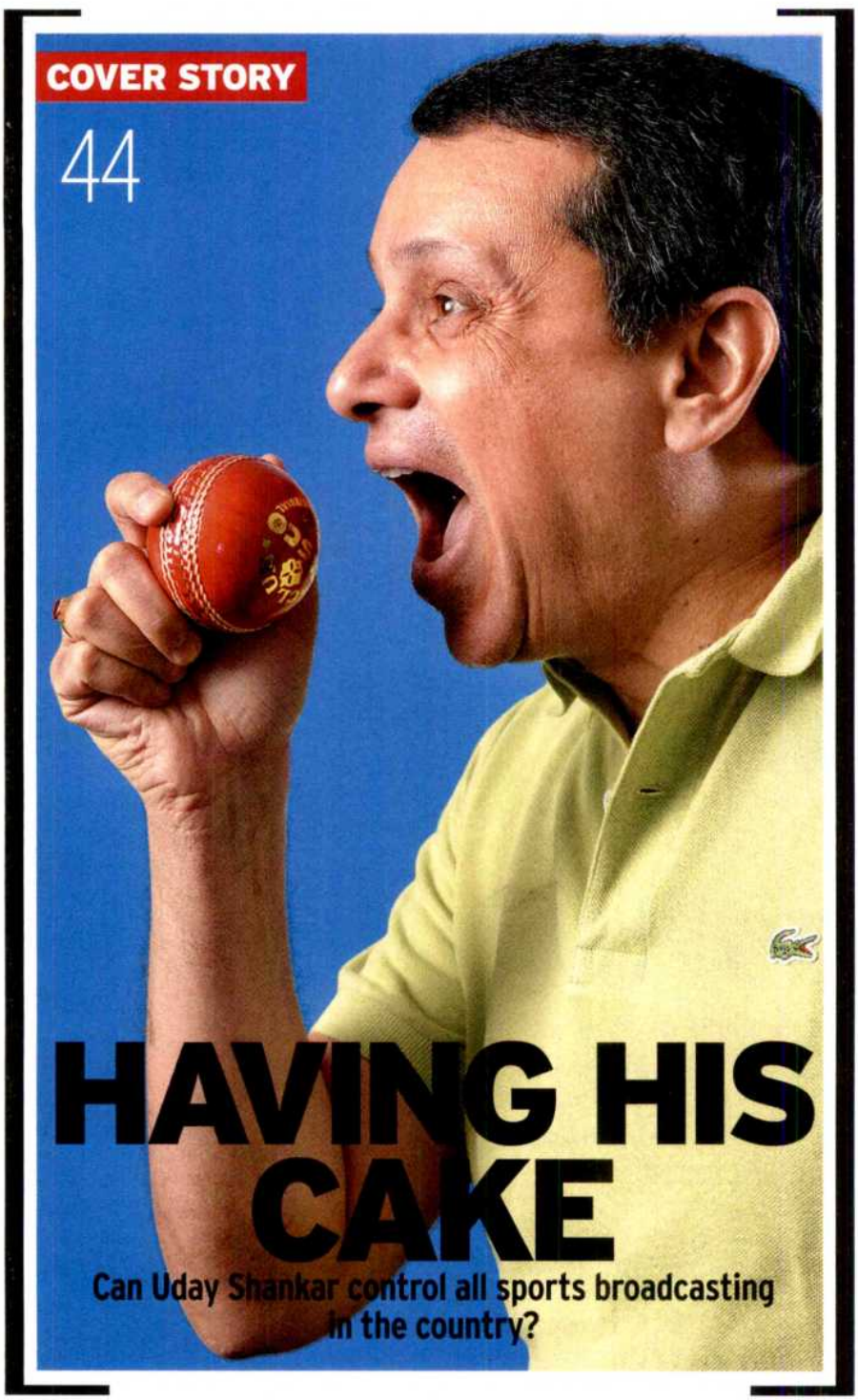

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BHASKAR PAUL

Reliance on India: Reliance Industries plans to invest ₹1.5 lakh crore over three years, said Chairman Mukesh Ambani at the recent annual general meeting in Mumbai. He is also betting big on telecom. His company, Reliance Jio Infocomm has inked a ₹12,000 crore tower sharing deal with younger brother Anil Ambani's Reliance Communications.

Corporate

Apollo Tyres, promoted by **Onkar S. Kanwar**, will acquire 100 per cent stake in US-based tyre manufacturer **Cooper Tire & Rubber Company** for $2.5 billion (₹14,500 crore). Apollo, set to be the world's seventh-largest tyre maker by revenue after the deal, will fund the acquisition fully by raising fresh debt. The deal will be the largest acquisition by an Indian company in the automotive sector, beating **Tata Motors**' acquisition of Jaguar Land Rover in 2008 for $2.3 billion.

Sun Pharmaceuticals will pay Pfizer and Takeda $550 million to settle a patent dispute over pantoprazle in the US. The global sales with this anti-ulcer drug as the key ingredient are estimated at $8 billion.

With Samsung and Apple, along with a handful of local manufacturers, cashing in on India's love for tablets, their global rival Amazon has decided to launch its popular Kindle Fire HD series of tablets in the country. These will be available in India from June 27 through Amazon.in.

Facebook is taking a leaf out of Twitter and similar services books by introducing hashtags. These will help to identify topics being discussed and allow users to search for them.

The **Central Bureau of Investigation** has registered fresh cases in the coal block allocation scam against **Congress** MP **Naveen Jindal** and former Minister of State for Coal **Dasari Narayana Rao** for criminal misconduct, conspiracy and cheating. A first information report named **Jindal Steel and Power Ltd** and three other companies. Jindal is alleged to have bought shares in Rao's company, **Sowbhagya Media**, at a premium to market price as a quid pro quo for favourable allocation of a coal mine in Jharkhand in 2008.

Big Brother is watching us all the time. Revelations that America's National Security Agency is monitoring phone and Internet data at Web giants such as Google Inc and Facebook Inc have raised concerns across the world.

Wealth in the Middle East and Africa (MEA) saw near double-digit growth at 9.1 per cent in 2012, says the latest Boston Consulting Group's annual global wealth management report. Qatar has the highest density of millionaires in the world, with 14.3 per cent of the oil-rich Gulf nation's population holding private wealth of at least $1 million. Kuwait ranks third with 11.5 per cent, while Bahrain (4.9 per cent) and the UAE (4.0 per cent) rank seventh and ninth, respectively.

Economy

BT RETRO

www.businesstoday.in/auto-woes

Car sales in India fell for a record seventh consecutive month in May registering a decline of 12.26 per cent. Domestic passenger car sales in May stood at 143,216 units as against 163,222 units in the same month of 2012. Industry body SIAM jumped in to caution that the prolonged slump in the market could result in job losses in the automobile sector.

Fitch Ratings has revised India's outlook to stable from negative. The global ratings agency has taken note of the government measures to contain the budget deficit. Yet last month, **Standard & Poor's** warned India of a downgrade. The ratings agencies may have differing views on Indian economy, but the factory output showed the spreading gloom. The Index of Industrial Production registered a meagre 2.2 per cent rise in April, compared to 2.5 per cent in the previous month. The fall in the manufacturing index was led by a sharp decline in sub-sectors such as consumer durables and capital goods.

$76 bn

The total size of etailing in India, or the business of selling retail goods on the Internet, by 2021. E-tailing, which is around 6 per cent of the total e-commerce, is estimated to be around $0.6 billion in 2012, according to a Technopak study.

$44.8 bn

Information technology spending by companies in India in 2014. The IT spending will expand by about $10 billion between 2012 and 2014, according to a report by IDC. Cloud computing and enterprise mobility will drive the growth. The Tier II and Tier III cities, as well as emerging verticals such as education and healthcare, will ensure boost in IT spending.

Markets

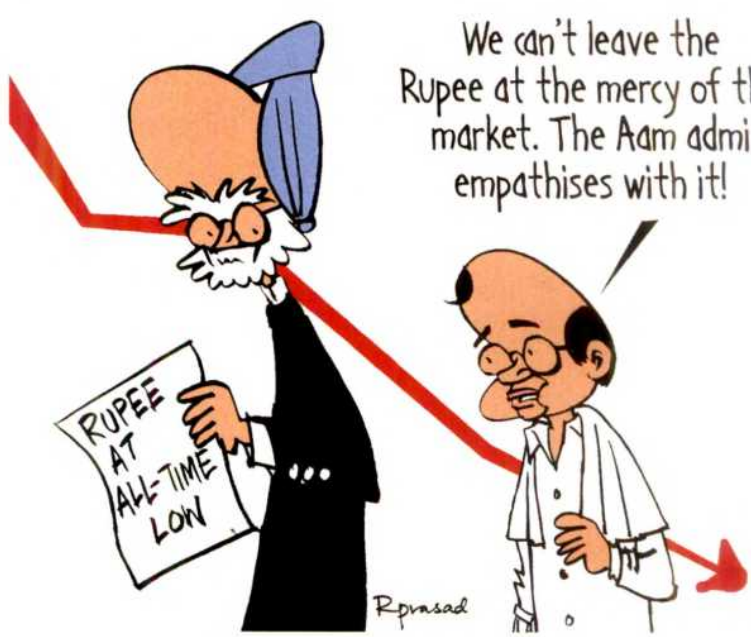
The government has hiked the investment limit for foreign portfolio investors in government bonds by $5 billion to $30 billion. The enhanced limit will be available only to foreign central banks, sovereign wealth funds, multilateral agencies, endowment funds, insurance funds and pension funds.

The mutual fund industry posted five per cent growth in average assets under management, or AUM, to touch an all-time high of ₹8.68 lakh crore in May on the back of strong inflows into money market and income funds. The country's 44 fund houses had recorded higher funds in May compared to the previous inflow of ₹8.26 lakh crore in January 2013.

Coming Up

- US Secretary of State John Kerry will arrive in Delhi on June 24 for a strategic dialogue. The India-US CEOs Forum is set to meet in July. Prime MInister Manmohan Singh is set to visit the U.S. in September-October.

- The government is likely to conduct the third round of spectrum auction within 70 days of receiving approval from an empowered group of ministers. The eGoM is to decide on auction of 2G spectrum in 1800 Mhz band, premium airwaves frequency in the 900 Mhz band and CDMA spectrum that remained unsold in March.



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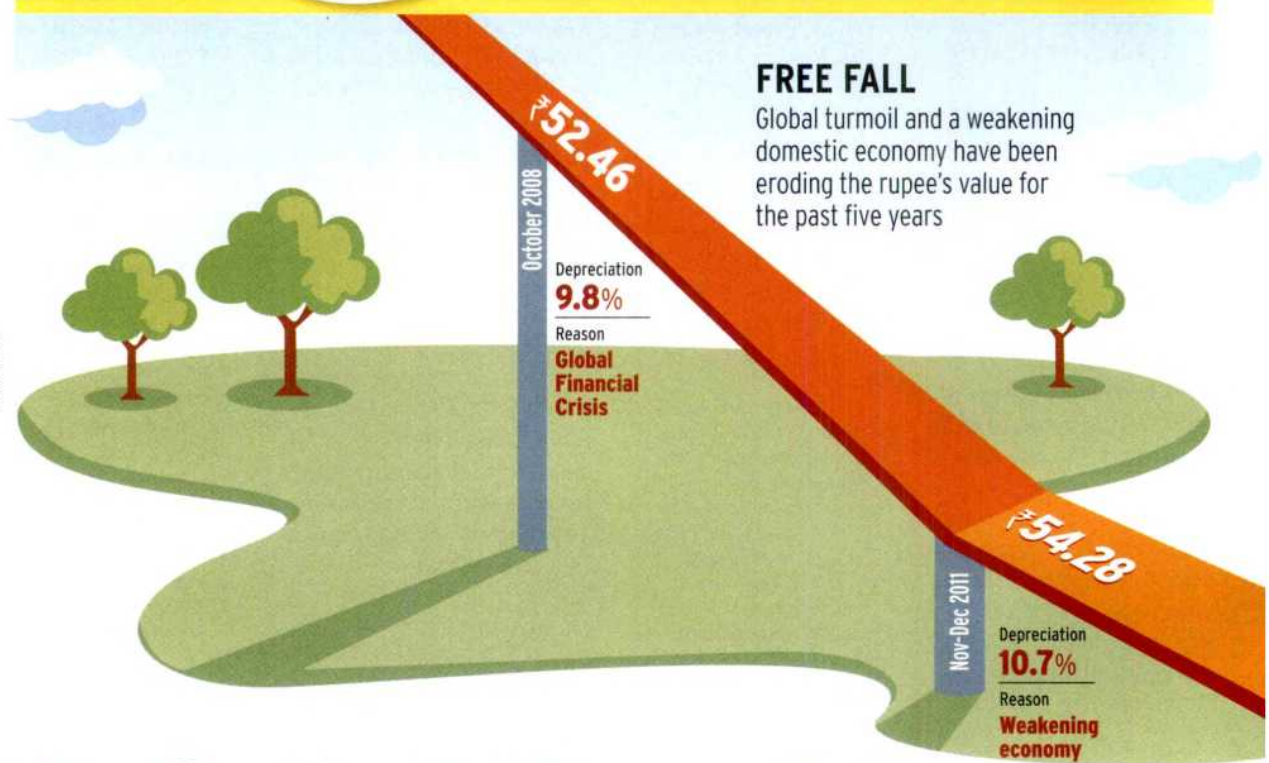


SANTOSH

Painful Tumble

The rupee's latest slide is likely to set back the economic recovery in India that had barely begun. By SANJIV SHANKARAN

It is ironical that a likely recovery of the global economy led by the US, which the world had been anxiously waiting for, should usher in economic turbulence for India. But that is what has happened.

An upbeat prospect for the US economy has led to global money managers pulling money out of emerging markets such as India and Brazil. Indian debt markets saw an outflow of $486 million of foreign money between May 1 and June 10 as fund managers sought investment opportunities in the US.

The impact of this trend showed up most prominently in the foreign exchange market. The rupee shed some 10 per cent against the US dollar between May 1 and June 11, when it closed at a record low of ₹58.92. "In India, we have to contend with this external contributor to our volatility," says Ajit Ranade, President and Chief Economist of the Aditya Birla Group.

Contributing to the rupee's fall were reports about the possible winding down of the US' Quantitative Easing (QE) programme. QE, a series of monetary stimulus packages unveiled to revive the US economy, had led to across-the-board rallies in most asset classes and markets globally. As the US economy begins to improve, the country's stimulus packages will be gradually rolled back, with negative implications for emerging markets like India.

Finance Minister P. Chidambaram issued a media statement on May 23 to calm the financial markets. He chided the market for misinterpreting the US Federal Reserve Chairman Ben Bernanke's remarks on the QE programme. Bernanke had clearly indicated he would continue with the monetary stimulus in the foreseeable future, Chidambaram stressed. But the finance minister's media statement failed to pacify the markets – the rupee continued to slide. "There will be volatility," says Harihar Krishnamoorthy, Treasurer at First Rand Bank. "It is a global phenomenon."

The rupee's depreciation over the last six weeks could mitigate the positive impact of moderating inflation in India. Inflation dropped to 4.7 per cent in May, the lowest in over three years.

A weak rupee makes imports costlier, stoking inflation, and will also lead to a further widening of the current account deficit (CAD) – the difference between a country's total imports of goods, services and transfers and its total exports of these.

47%

The share of oil and gold in India's total imports of $131.4 billion in the third quarter of 2012/13

N.R. Bhanumurthy, Professor at the National Institute of Public Finance and Policy, explains that depreciation in the rupee offsets the advantage of oil prices remaining around $100 a barrel. Oil makes up the largest component of India's imports and accounts for about a third of the total. A rising oil imports bill will put pressure on the fiscal deficit as well, since the government sells diesel, kerosene and domestic cooking gas at subsidised rates. "There's pressure on fiscal deficit as well as on inflation," says Bhanumurthy.

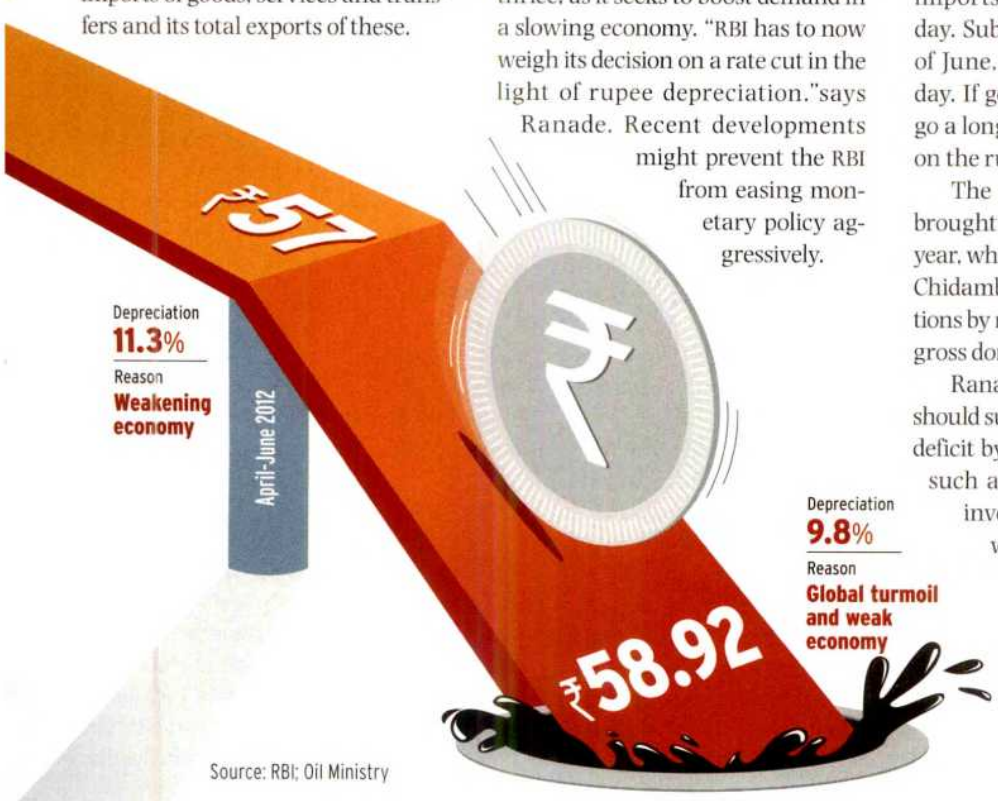
The Reserve Bank of India looks at the fiscal deficit and inflation numbers closely while taking decisions on monetary policy. In the current calendar year, RBI has cut interest rates thrice, as it seeks to boost demand in a slowing economy. "RBI has to now weigh its decision on a rate cut in the light of rupee depreciation," says Ranade. Recent developments might prevent the RBI from easing monetary policy aggressively.

Even exporters may not benefit from a weak rupee. According to Bhanumurthy, exchange rate swings have a disproportionate impact on India's imports as compared to exports. "Imports are more sensitive to exchange rates than exports," he says. Exporters argue that currency depreciation has at best short term benefits for them. "It makes no difference in the long run as imported raw materials get costlier and customers ask for lower prices," says M. Rafeeque Ahmed, President, Federation of Indian Export Organisations.

With international developments beyond Indian policymaker's control, what domestic factors are likely to influence the rupee? June's trade deficit number assumes significance as there are early signs that gold imports may be moderating. Gold accounts for about 10 per cent of India's imports. According to Raghuram G. Rajan, Chief Economic Advisor of the Finance Ministry, between May 1 and May 20 gold imports averaged $135 million a day. Subsequently, in the first week of June, it averaged $36 million a day. If gold imports taper off, it will go a long way in lifting the pressure on the rupee.

The fiscal deficit has also been brought under control over the last year, which augurs well for the rupee. Chidambaram beat market expectations by restricting it to 4.9 per cent of gross domestic product in 2012/13.

Ranade feels the finance ministry should supplement its control of fiscal deficit by a series of small measures such as expanding foreign direct investment limits and lowering withholding tax on foreign investment in Indian debt to prop up the rupee. That is precisely what Chidambaram promised on June 13. "I am looking forward to more reforms," he said. ◆



Source: RBI; Oil Ministry

VIVAN MEHRA

Spreading its wings : An IndiGo aircraft takes off from Delhi's Indira Gandhi International Airport

Where the Money Lies

Indian private carriers are tapping more overseas routes for growth and profits. By K.R. BALASUBRAMANYAM

The Kalanithi Maran-controlled SpiceJet has been quietly expanding its list of overseas destinations. Since the beginning of this calendar year, the listed private carrier has started flights from New Delhi to Riyadh (Saudi Arabia) and Guangzhou (China), and from Lucknow to Sharjah in the United Arab Emirates.

Meanwhile, IndiGo, India's largest domestic carrier by market share, has stepped up the frequency of its operations between Mumbai and Muscat (Oman) from three flights a week to daily service. It plans to induct 28 Airbus A320 aircraft into its fleet by December next year. The carrier currently operates 17 daily flights to the Gulf region from Indian cities. Jet Airways has also introduced daily services from Kochi to Kuwait via Abu Dhabi from May 16.

Indian carriers are clearly chasing international routes to increase their revenues, and to overcome the pressure on profit margins from domestic operations. International routes traditionally deliver higher margins for airlines. Jet Airways, for example, had an operating profit margin of 16.5 per cent from its international operations compared with a 30.9 per cent loss from domestic operations in the January-March quarter this year. More than half of Jet's revenues come from international operations.

INTERNATIONAL TRAFFIC GROWTH IN THE CURRENT FISCAL YEAR IS EXPECTED TO BE MORE BUOYANT THAN DOMESTIC

SpiceJet has turned in a stellar performance on overseas routes. The proportion of its revenues from international operations to total revenues has jumped six times, from 1.8 per cent in the January-March quarter of last year to 11 per cent in the same period this year, says Mahantesh Sabarad, aviation analyst at Fortune Equity Brokers. "In the coming one year period, we expect that around 20 per cent of the airline revenue will come from international operations," says a SpiceJet official. "We are adding eight Boeing 737 aircraft to our fleet this fiscal year and most of them will be deployed on international routes."

The domestic market is not seeing growth, says Sabarad. According to a recent note by the aviation consulting firm, Centre for Asia Pacific Aviation (CAPA), international traffic growth in the current fiscal year is expected to be more buoyant than domestic and could grow by 10 to 12 per cent as Indian carriers expand. "Jet is already profitable on international operations and is expected to further strengthen its performance in the coming year as a result of its increasing cooperation with Etihad. IndiGo and SpiceJet are nearing break-even on overseas routes," says Kapil Kaul, CEO (South Asia) at CAPA. His consultancy estimates that IndiGo, SpiceJet, Jet Airways and GoAir will report combined profits of $250-300 million in 2013/14.

The airlines also find it cheaper to fly international because of lower costs. SpiceJet CEO Neil Mills remarked recently that Delhi-Commonwealth of Independent States operation is cheaper than Delhi-Chennai. The high price of aviation turbine fuel in India, in particular, is a major challenge for domestic operations, says the SpiceJet official quoted above. ◆

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Still Early Days

The impact of the monsoon on agriculture will depend on its distribution across the country over the next couple of months. By AJAY MODI

SRISTI

The timely onset of the monsoon bodes well for the economy. Indeed, the monsoon was making rapid progress and was ahead of its schedule over the west coast at the time of going to press.

The rainfall (until June 12, 2013) has been 17 per cent higher than normal and augurs well for the sowing of the kharif crop, according to Laxman Singh Rathore, Director General of the India Meteorological Department. "The arrival in the territories covered so far has been either ahead of the normal date or around the normal date. The timely onset is a positive development. Even in those areas where the monsoon has not set in, pre-monsoon showers are taking place," he says.

The south-west monsoon spread over June to September is the primary rainy season in India. Most of the country – except southern peninsula, Jammu & Kashmir and Assam – receives more than 75 per cent of its annual rainfall during this period. The monsoon rainfall has a direct bearing on crops across the country. Agriculture and allied sectors such as forestry and fishing account for 14 per cent of gross domestic product (GDP) but employ more than half of the Indian workforce.

However, analysts caution that it's too early to gauge the impact of the monsoon on agriculture and the economy. A lot will depend on its progress and, more importantly, uniform distribution across the country in the next two months. "There are early good signs but one will have to take it with some degree of caution. It is critical to see how the monsoon progresses and spreads across various parts of the country," says Madan Sabnavis, Chief Economist at CARE Ratings.

The monsoon will be a vital determinant of food inflation as it is critical for sowing of major crops such as paddy, oilseeds, pulses, onions and cotton. "The period from now to middle of August will be critical for sowing and by July end we will have a fair idea of the patterns. Only then we will be able to assess its impact on food availability and inflation," says Sabnavis.

An errant monsoon can augment the problems of the Indian economy. The wholesale price index-based food inflation stood at 8.25 per cent in May 2013, up significantly from 6.08 per cent in April. Retail food inflation too remains high – the consumer price index-based food and beverage inflation for May stood at 10.65 per cent.

The impact of poor monsoon is felt on several industries, including consumer goods, automobiles, cement and steel. According to estimates, poor rains can impact the country's GDP by anywhere between two per cent and five per cent. This is largely because, despite agriculture's declining contribution to GDP, it has a big impact on the purchasing power of a large section of the population that lives on agriculture. ◆

THE MONSOON WILL BE A VITAL DETERMINANT OF FOOD INFLATION AS IT IS CRITICAL FOR SOWING OF MAJOR CROPS

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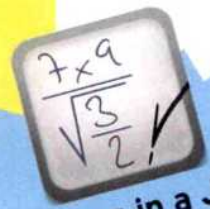
A GREAT CALCULATOR APP AND TWO WORTHY SMARTPHONES



Solutions in a Jiffy

Just a calculator? Yawn. Hang on, this app is way ahead of the pack. MyScript Calculator, by Vision Objects, available on both iOS and Android operating systems, solves the most complicated of equations. Yes, it does get a bit confused if your '3' looks a bit like '5' or if you scribble a '/' instead of the symbol for division. But set it a problem like the one shown above and it will give you the solution in a jiffy.

Price: Free

Top-notch, yet Affordable

The Nokia Lumia 720 is a mid-range Windows Phone 8 smartphone with a unibody design and a smooth and solid build. It has a 4.3-inch display and three touch keys at the front. At 800x480p, the display resolution is low, but Nokia's ClearBlack technology makes it better than other devices of the same resolution. Along with the regular Windows Phone 8 tile interface, the Lumia 720 also has an improved lock screen that can pull updates from all the apps. Since Windows phones run smoothly on relatively low-power processors, the 1 Ghz dual-core processor with 512 MB RAM is enough to provide good performance. The highlight of the device is its 6.7MP camera with Carl Zeiss lens and a best-in-class F1.9 aperture. It captures details and real-life colours perfectly. The sound output is above average.

Price, Camera

Screen resolution

Nokia Lumia 720 **Price:** ₹18,094

LG Google Nexus 4 **Price:** ₹25,999

Better Late Than Never

Finally, a Google smartphone has officially become available in India. In many other countries, it was launched last year. Built by LG, the Nexus 4 has an all-black body and a 4.7-inch Corning Gorilla Glass 2 display. At 139 grams, it feels slightly heavy. But the best feature is its pure vanilla Android 4.2 OS, devoid of any tweaks. This version of the OS offers widget support on the lock screen and apps can be uninstalled by simply dragging them upwards. Powered by a Qualcomm Snapdragon 1.5 GHz quad-core processor paired with 2GB RAM, the phone performed impressively all the while it was tested out. It has an 8MP camera and a new easy-to-use interface.

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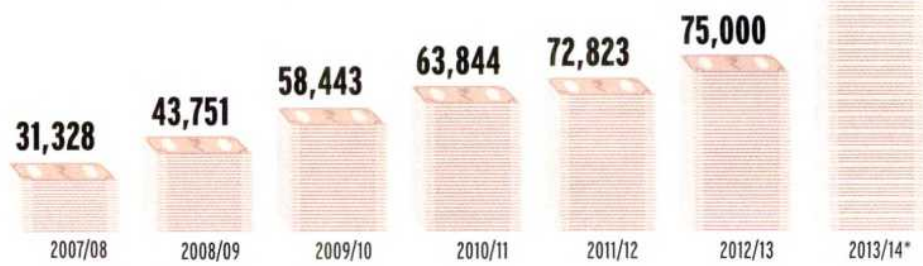
EATING UP FUNDS

The National Food Security Bill may get Parliament's nod soon. It aims to provide wheat and rice to almost two-thirds of India's population of 1.2 billion at highly subsidised rates. But this showpiece legislation will come at a steep price, adding substantially to the government's food subsidy bill and widening the fiscal deficit. There will also be problems of implementation.

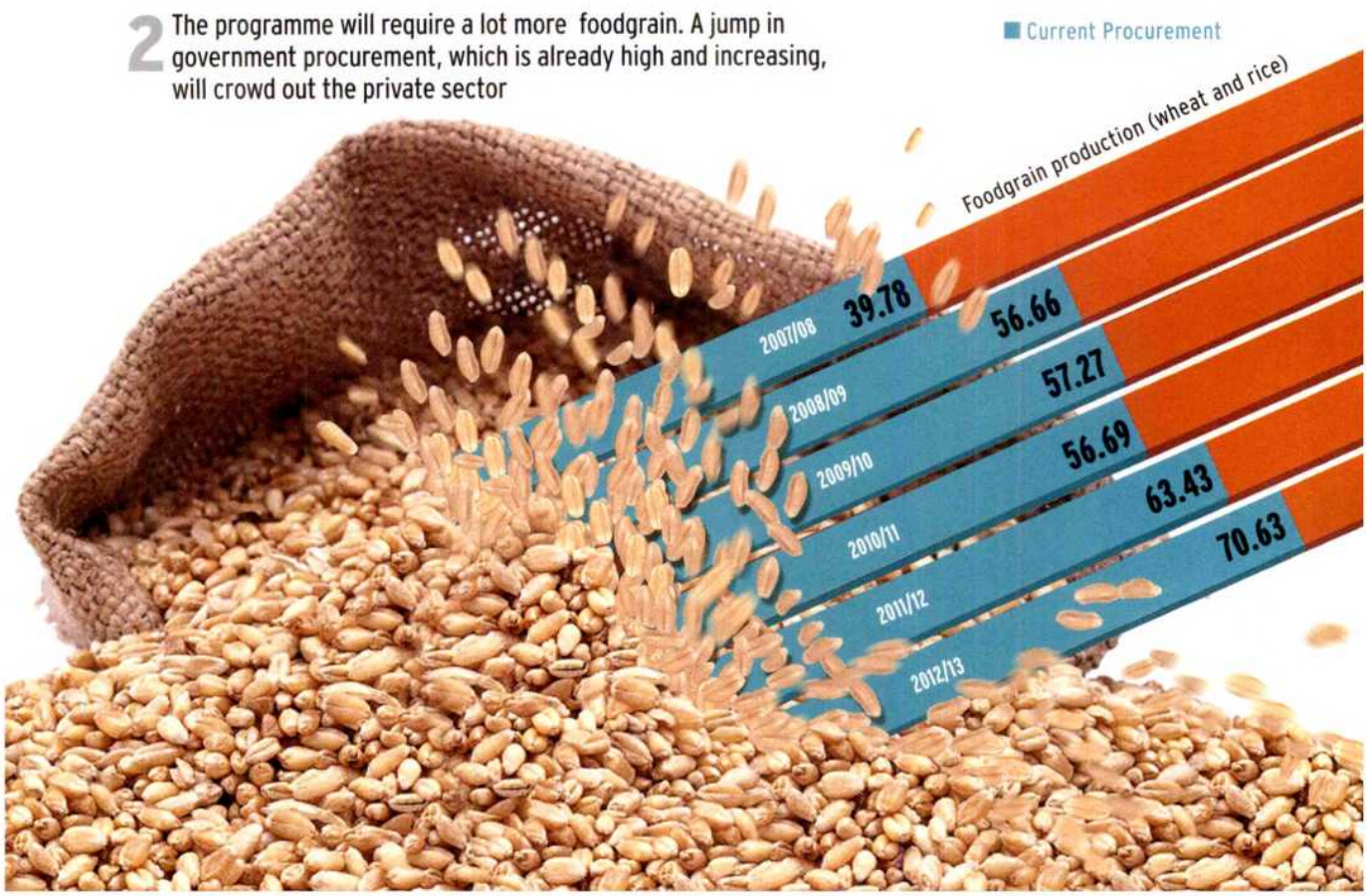
Graphic by **Santosh Kushwaha** • Research by **Jyotindra Dubey**

1 The Food Security Bill will treble India's annual food subsidy



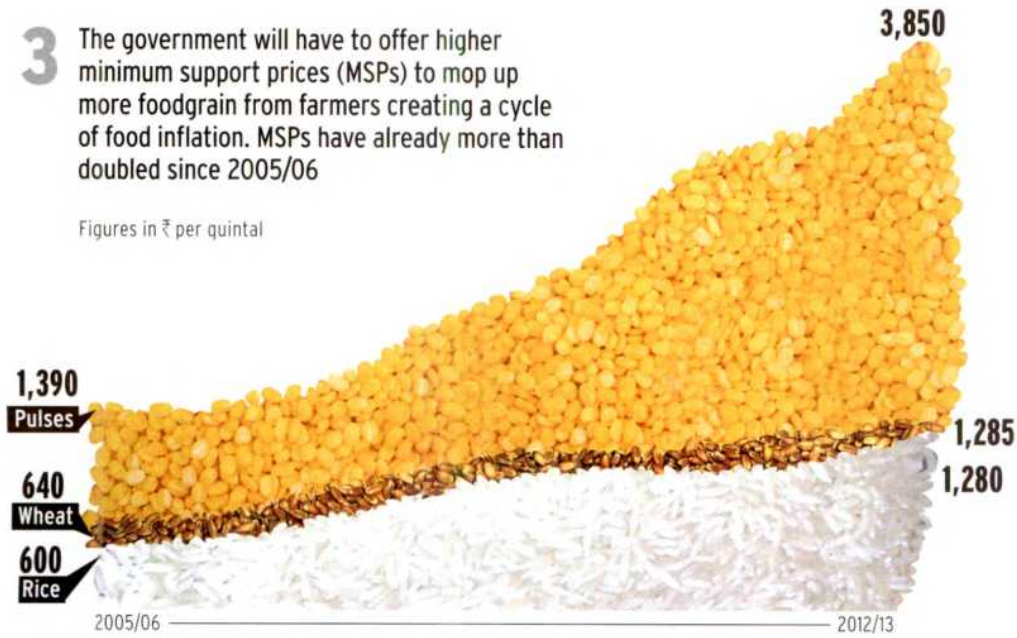
Figures in ₹ crore
*Estimates of the Commission for Agricultural Costs and Prices.

2 The programme will require a lot more foodgrain. A jump in government procurement, which is already high and increasing, will crowd out the private sector



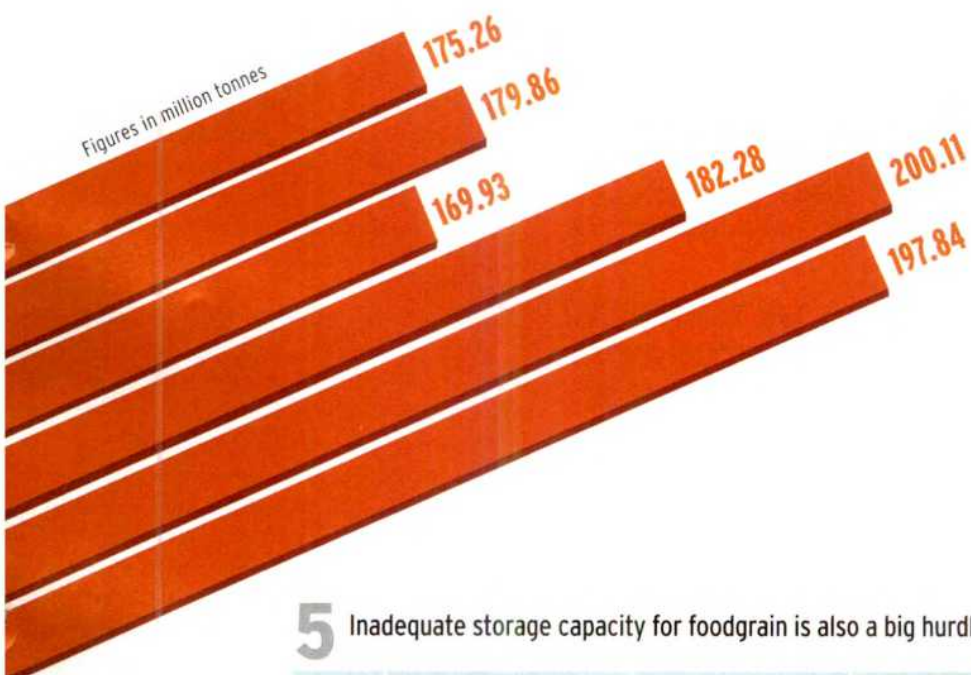
3 The government will have to offer higher minimum support prices (MSPs) to mop up more foodgrain from farmers creating a cycle of food inflation. MSPs have already more than doubled since 2005/06

Figures in ₹ per quintal



4 However, the government has large foodgrain stocks which will act as an initial buffer

Figures in million tonnes



5 Inadequate storage capacity for foodgrain is also a big hurdle

Year	Foodgrain stock	Storage capacity	Shortage
2008	**29.88**	23.89	**5.99**
2009	**41.94**	25.27	**16.67**
2010	**46.87**	28.83	**18.04**
2011	**54.13**	31.61	**22.52**
2012	**66.78**	33.6	**33.18**

Figures in million tonnes

Sources: Food Corporation of India, Commission for Agricultural Costs and Prices, Ministry of Agriculture, CAG

RICHARD COOPER and RICHARD DOBBS

China's E-tail Revolution

E-tail is set to shape not only the retail landscape in China, but also the manufacturing and financial services industries – and even the urban landscape itself

When you think about centres of technological innovation, Silicon Valley, Seattle, and Seoul are probably the first places that come to mind. After all, they are the homes of Amazon, Apple, Facebook, Google, Intel, Microsoft, and Samsung – companies whose innovations transform the way other sectors, from financial services to telecoms and media, do business.

Now, however, the rise of "e-tail" (consumer-facing e-commerce) in China is enabling Hangzhou – the base of Alibaba, China's largest online retailer – to join their ranks. Indeed, on April 29, Alibaba signalled its ambitions by buying an 18 per cent stake in Sina Weibo, China's version of Twitter. And, as with technology hubs elsewhere, innovations born in Hangzhou are determining the development path of related industries.

BY 2020, CHINA'S E-TAIL MARKET COULD BE AS LARGE AS TODAY'S MARKETS IN THE US, JAPAN, THE UNITED KINGDOM, GERMANY, AND FRANCE COMBINED

China's e-tail market is the world's second largest (after that of the United States), with an estimated $210 billion in revenue last year. Since 2003, the market has posted a compound annual growth rate of over 110 per cent. By 2020, China's e-tail market could be as large as today's markets in the US, Japan, the United Kingdom, Germany, and France combined.

Despite a broadband penetration rate of only 30 per cent, e-tail commanded five-six per cent of total retail sales in China in 2012, on par with the US. And the sector is already profitable: Chinese e-tailers are logging margins of 8-10 per cent of earnings before interest, taxes, and amortisation, which is slightly larger than the average margin for physical retailers.

Two features of Chinese e-commerce stand out. First, roughly 90 per cent of Chinese e-tail is conducted on ad-funded virtual marketplaces. On these platforms – which resemble eBay and Amazon Marketplace – manufacturers, retailers, and individuals offer products and services to consumers through online storefronts. By contrast, in the US, Europe, and Japan, roughly 70 per cent of the market is composed of e-tailers running their own web sites, whether online-only merchants like Amazon or traditional brick-and-mortar retailers such as Carrefour, Dixons, and Walmart.

Moreover, according to a study by the McKinsey Global Institute, online purchases in China do not simply replace offline purchases. Rather, e-tail supports incremental consumption: $1 of online consumption seems to generate roughly $0.40 of additional sales. And incremental spending as a share of total spending is even higher in China's less-developed cities, where a shortage of brick-and-mortar retailers means that online shopping provides access to otherwise unavailable products and brands.

Mass consumption in China and other emerging economies is coming of age in the Internet era. Given that industry structures are still developing in many of these countries, e-tail is set to shape not only the retail landscape, but also the manufacturing and financial-services industries – and even the

HSIN-YAN SANTOSH

urban landscape itself.

In most countries, the retail sector has typically developed in three stages: first, local or regional players dominate, before a smaller number of national companies takes over, with e-tailers ultimately challenging traditional businesses. But China lacks national leaders, with the top five Chinese retailers in different product categories commanding less than 20 per cent of the market, compared to up to 60 per cent in the US. And establishing a strong physical presence throughout the country will be time-consuming and expensive.

By contrast, Alibaba (which owns marketplaces such as Taobao) and 360buy.com (which focuses on electronics) rank among China's top 10 retailers, and already provide national coverage through the reach of express delivery companies. As a result, China's retail sector seems more likely to follow a two-stage development path, with e-tailers emerging as the major national players.

The ability afforded by online marketplaces to new players to attain national – and international – prominence without massive upfront investment will profoundly affect how both retailers and manufacturers approach new consumer markets. The Japanese retailer Uniqlo, for example, used such marketplaces to expand into China in 2009.

Likewise, by removing some of the benefits of scale and specialisation that characterise the consumer-goods industry elsewhere, e-tail enables new manufacturers to join the market, selling goods like apparel and cosmetics directly from workshops and factories to consumers. Such businesses are also leveraging their broad access and widely-recognised brands to expand their role in the financial services sector.

Finally, e-tail could shape China's urban development and transform leisure activities. Urban centres worldwide revolve around shops, whether on main street or at the mall, with many consumers viewing shopping as a leisure activity. China's evolution will likely entail smaller main streets and malls, with large distribution centres near city limits. Citizens will spend more free time engaging in other activities, such as dining out. All of these changes could alter the use and pricing of real estate.

Other emerging markets are likely to follow a similar course. Chinese e-tailers are already using their advantages in exporting products from the country's factories to expand internationally. And enterprises in other countries are adopting a similar online business model.

CHINESE E-TAILERS ARE ALREADY USING THEIR ADVANTAGES IN EXPORTING PRODUCTS FROM THE COUNTRY'S FACTORIES TO EXPAND INTERNATIONALLY

China may have largely missed the Industrial Revolution in the nineteenth century. But its approach to e-tail is poised to be one of the forces shaping the emerging-market Internet revolution of the twenty-first century. ◆

Richard Cooper is professor of International Economics at Harvard University. Richard Dobbs is a director of the McKinsey Global Institute. *© Project Syndicate*

The Unlikely InfoSCION

Doting father or boss under pressure? Tech whiz or able assistant? It is time for Murthy and Murty to figure each other out, says Suveen K. Sinha

Rohan Murty could not believe what had just happened. Lounging around at home, he stumbled upon one of the several computer books his parents kept. He opened a chapter and copied what was in the book into the old computer. It worked. In a manner of speaking, he had just written some code. "I spent a lot of time copying into the computer what was in the book. It was the most exciting time I have had from an intellectual perspective," he says.

Forgive his exuberance. The code was simple. So was the act; he was merely copying from a book. But then, that was 21 years ago. He was eight, studying in fourth grade.

From there, he took what seems like a preordained path to computer science research at Harvard University. But now he has done the unexpected and joined Infosys as executive assistant to his father, N. R. Narayana Murthy – we will come to that 'h' in the surname in a bit – who returned on June 1 to take charge of the company as executive chairman.

During the conversation with Rohan, in March this year, Infosys was spoken of fondly, but vaguely.

Waxing Lyrical: Within a month of that first dalliance with code writing, Rohan was through with the book. Soon after, he wanted to get into an advanced course in computers. His mother Sudha, giver of the most famous ₹10,000 in the history of software, for it seeded Infosys, thought the boy was merely playing the fool. The father, though, took him seriously and put him in a programming class.

By the time he was in sixth grade, Rohan Murty's dinner conversations with his father were about operating systems

By the time he was in sixth grade, Rohan's dinner conversations with his father were about operating systems. "My parents never pushed me into anything, only to gain weight. But they were very supportive. If I wrote 10 pages of code, my father, even if he had just come back from a long journey, would sit with me and go through it and explain things."

He was already writing a lot of code and putting it on the Internet when he joined middle school. Now he needed a nickname, for he would be inundated with email from people reading or downloading his code. And he chose "Lyric", the name of his cousin's dog.

Talking about names, NRN is in a minority in his own household when it comes to spelling the surname. He is the only one with an 'h' in it; his wife, son and daughter are Murtys. It so happened that Sudha, when she

Across the Spectrum

Rohan Murty's path-breaking work as a Harvard researcher

Indians, singed by the spectrum grab that has played out in recent years, would wish him well. Ever since spectrum, the air waves that carry radio signals, including those for telecommunications and television, were found to be useful, portions of it have been either owned by somebody or nobody. Murty has created a model to provide a third option.

Think of it like a highway with several lanes licensed to somebody or the other. You cannot build more lanes – spectrum is finite – and you can drive your car only through a given lane. On close examination, you would find that most of the time only two or three of the lanes are used and get congested. The other lanes lie unused. So there is artificial scarcity.

Opportunistic Spectrum Access, which the Federal Communications Commission of the United

Yesterday Once More pg 30 »

EA with a difference: Rohan Murty, who has joined Infosys as executive assistant to his father N. R. Narayana Murthy, owns more shares in the company than his father (see Infosys Promoters' holding on Page 26)

VIVAN MEHRA/www.indiatodayimages.com

married NRN, dropped her maiden name, Kulkarni, for her husband's. But, coming from the northern part of Karnataka – her husband is from the south – she did not see the point of the 'h'. As evidence of who really calls the shots in household matters, she stuck to Murty when enrolling her son and daughter in school.

The PhD Factor: When Rohan was growing up, NRN was always a father to be admired. But for the son, the real hero was his uncle, Sudha's brother Srinivas Kulkarni. Head of the Astronomy Department at the California Institute of Technology (Caltech), Kulkarni was a hero even to NRN. And that has a lot to do with why Murthy and the Murtys did not think much about money.

"When I was growing up, there were situations in which it was clear that money was tight. My mother always said 'That is just how it is'. We have lived in the same house since 1988 or '89. The only emphasis we had in our house was on education."

NRN talked very little about his work and a lot about people who were professors, as if he wished he could be one. He had come close to doing his PhD, but was forced to forgo it because he was under pressure to earn money when his father died. "Till today he wishes he had done the PhD," Rohan says.

Infosys, though, was always talked about in the household, not as a company or as a stock, but as a real,

States has backed, makes it possible for others to use those lanes (portions of spectrum) when the owners (the licensees) are not. When the owner returns, you get to know he has, and you get out. Since spectrum is transient – unlike say a house, which can change if some others are living in it while the owner is away – there will be no problem so long as you get out before the owner begins to use it again.

What Murty has done is build a prototype to demonstrate how this can be done. His vision is to build a live repository of spectrum, like an oracle in the sky that will tell you which spectrum is lying unused where. The owners of the unused spectrum can run an auction to sell it – for hours, minutes or seconds – or get into bulk deals. The buyers will know where to bid.

living thing. So, for instance, the children had to understand that the father would not be around much because Infosys needed him.

Once in middle school, Rohan would often see his father in the newspapers. The Infosys stock price and its creation of wealth became part of everyday conversation. His parents told him to ignore all this.

"All this is transient," they said. "The only things that remain with you are how you interact with people and what bonds you forge with them, and what knowledge you acquire. That is something nobody can take away from you."

the son of UB group chief Vijay Mallya? That would have shown him a way of life very different from the one Murthy and the Murtys chose.

"Our social circles did not intersect." In fact, Rohan's family did not have a very large social circle. Whenever NRN was home, he was mostly tired. The little energy he had left he wanted to spend with family. It was difficult to catch him at a party.

The Philosopher's Bone: At Harvard, Rohan was the same old nerd, working 10- to 18-hour days, including on weekends. The joke was that some people played squash,

Rohan did all that, though that page count may not have been met every week, and more. The first class was a little awkward – the other students wondered what a computer science researcher was doing there – but he soon settled in. A lot of what he studied was about the seventh century Mimamsa philosopher Kumarila Bhatta.

When Buddhism rose to prominence, it rejected the foundations of the Hindu schools of thought like Mimamsa and Nyaya. For 150 years there was no intellectual response from the other side.

Until Bhatta joined a Buddhist

Infosys Promoters' Shareholding

4.47	2.51	3.44	2.20	3.41
NARAYANA MURTHY FAMILY	**DINESH KRISHNASWAMY FAMILY**	**NANDAN NILEKANI FAMILY**	**SHIBULAL FAMILY**	**S. GOPALAKISHNAN FAMILY**
N. R. Narayana Murthy **0.41**	Asha Dinesh **1.23**	Nandan M. Nilekani **1.45**	S D Shibulal **0.43**	S. Gopalakrishnan **1.16**
Akshata Murty **1.41**	Deeksha Dinesh **0.24**	Janhavi Nilekani **0.29**	Shruti Shibulal **0.64**	Meghana Gopalakrishnan **0.11**
Rohan Murty **1.38**	Dinesh Krishnaswamy **0.8**	Nihar Nilekani **0.29**	Shreyas Shibulal **0.64**	Sudha Gopalakrishnan **2.14**
Sudha N. Murty **1.27**	Divya Dinesh **0.24**	Rohini Nilekani **1.41**	Kumari Shibulal **0.49**	

% share in total equity shares as on March 31, 2013 Source: Prowess

Not quite Siddharth Mallya: And so it was knowledge that Rohan sought. And a PhD. "By the time I was in middle school I had already decided I wanted to do a PhD, though I did not quite know what I would do after that."

It helped that his friends were all middle-class, as was the locality – Jayanagar – where the family lived. One of his closest friends was the son of a physics professor, another's father worked with ITC, and another's owned a small glass shop.

Did he fraternise with Siddharth,

some had relationships, Rohan had philosophy.

Wait a minute. Philosophy?

Actually, he was doing his PhD in computer science (See *Across the Spectrum*, Page 24.) But there was also philosophy.

Rohan had a general interest in the subject and an accidental meeting and friendship with Parimal Patil, a philosophy professor, got him to enrol in his course. "All you have to do is read 300 pages a week, attend my class, and be intelligent," said the professor.

monastery as a student, under cover. Once he had understood the philosophical foundations well, he went back and wrote a huge treatise on why Buddhism was wrong and why the Mimamsa philosophy was right. But that guilt of being undercover, the story goes, got to him. According to some versions, he killed himself.

The treatise Bhatta wrote became the Hindu response to Buddhism and formed the platform for the next seven centuries of philosophical debate between the two schools of thought. Rohan read Bhatta in

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K RAMACHANDRAN, family business expert

"Rohan has never worked in a company. An EA should be able to pick up the phone and talk to business heads. I'm not sure he can"

English, translated by John Taber of the University of New Mexico. And he asked himself why other great works in Indian languages should not become more accessible.

"I cannot read Sanskrit. I studied Kannada, my mother tongue, in school. There was no way I could have read Kumarila Bhatta if there was no translation." Patil introduced him to the Loeb Classical Library, the result of a 100-year effort to translate classical Greek and Latin texts into English. Eventually, Rohan met Professor Sheldon Pollock at Columbia University. "He said why just Sanskrit, there is also old Tamil, old Kannada and old Bengali. There is a wealth of literature there."

That is how the Murty Classical Library of India was set up at Harvard, with $5.2 million from the family, to start a series dedicated to making the literary heritage of India available to English language readers.

"When I have children, I want them to grow up recognising their heritage, where they have come from."

Change of Plans: The family heritage, though, will be a lot about Infosys.

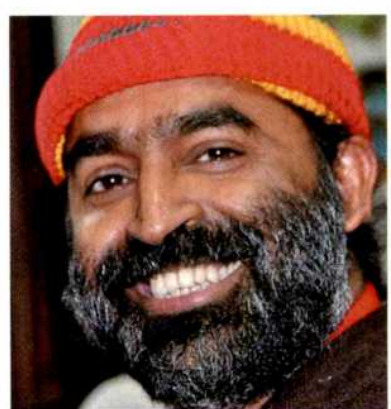
In March, when Rohan looked into the future, he did not see Infosys in it. But it was not completely out of the picture either.

"There is no real notion of succession," he said. His father was clear that no founding family should have more than one member in the company. In the early years, Sudha, a gold medallist from the Indian Institute of Science and a formidable programmer, worked alongside her husband. But in the mid 1980s, NRN said one of them should quit and he would be happy to do that if the wife was keen to stay on.

However, after a bit of pause and a bit of looking at the ceiling – as if he was wondering aloud – Rohan said: "I sometimes feel that a PhD from Harvard in computer science... These are not bad qualifications... But somehow I never raised this topic with my father."

In the period since that interview, the topic was surely raised, though more likely by the father.

"...given Rohan's credentials, he would add value to me and Infosys. Consequently, I have requested Rohan to take sabbatical leave from Harvard and join my office to assist me," NRN said in a letter to Infosys employees.



SANTHOSH BABU

CEO coach

"I do not think this is a succession plan. There are ways of doing that and making your son your EA is not one of them"

An EA Apart: Santhosh Babu, who coaches CEOs and other celebrities in life skills, sees nothing wrong with this. "Is he qualified? He is. Good EAs do increase the efficiency of CEOs. The flip side is that they do not get any visibility. I do not think this is a succession plan. There are ways of doing that and making your son your EA is not one of them."

It is unusual, all right. And one need not go very far to find the usual. Lakshmi Venu, who Rohan married two years ago, is already director-strategy at Sundaram-Clayton, the auto parts company whose CMD is her father Venu Srinivasan.

K. Ramachandran, an expert on family businesses, sees "no evil intention" in the changes at Infosys. However, he does not see Rohan being a very effective EA. "He has never worked in a company. An EA should be able to pick up the phone and talk to business heads. I'm not sure he can. He may not be able to help his father much in routine work. His major strength will be his understanding of technology."

Yet, according to Ramachandran, the move could have been avoided. "Bringing his son was unprofessional," he says of NRN. "He had given Infosys the image of a highly professional and transparent organisation. He has diluted that."

There is a bit of transparency in NRN's letter to Infosys employees. "His charter," NRN says about Rohan, "is to be my executive assistant and not to aspire to become the next CEO." ◆

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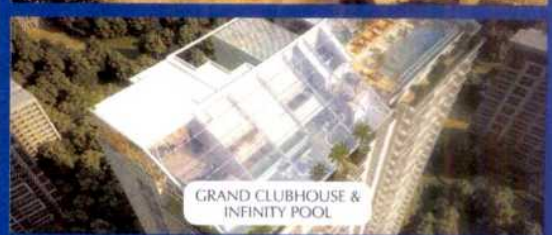

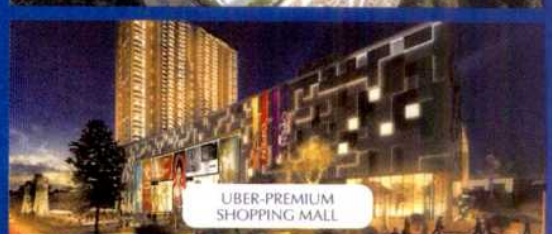

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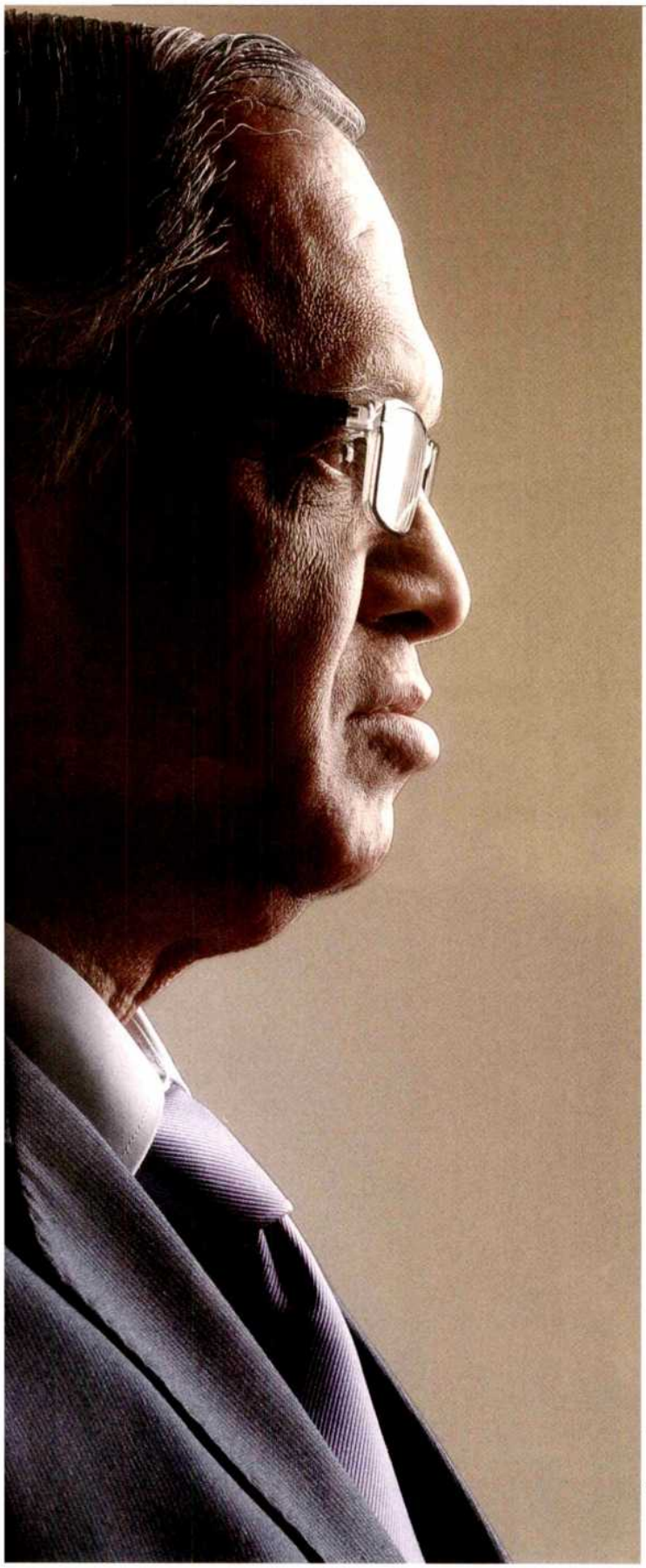

NILOTPAL BARUAH/www.indiatodayimages.com

Yesterday Once More

N.R. Narayana Murthy's return to Infosys as Executive Chairman may well restore the company to its former glory. But he should not stay beyond two years. By GOUTAM DAS

During his first stint as Infosys's chief, N.R. Narayana Murthy, while meeting potential clients or showing them around the Bangalore campus, rarely spoke about his company directly. He had no need to – everyone knew. In those days, Infosys was the Indian stock markets' darling. Investors loved it because it always beat its earnings targets. Murthy himself was the poster boy of the country's software industry. "Murthy was keen on talking about India, and how Infosys was helping the country move forward," says Al-Noor Ramji, former Chief Information Officer (CIO) of the BT Group, Britain's communications' services giant, talking about his 2005 visit. "He never talked about Infosys by itself."

Today, however, back in Infosys as Executive Chairman, Murthy will have to be a lot more down to earth. He will need to dwell at length on Infosys's current activities and achievements. For the company's financial fortunes have been fading. Its market share has slipped and competition is snapping at its heels. The question on everybody's lips is: can Murthy's return revive the Infosys magic?

It certainly won't be easy to turn around the

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Winners and Losers at Infosys

DOWN

S.D. Shibulal

Murthy's comeback is an acceptance of Shibulal's failure to galvanise the company. From now on, he may focus more on operations than strategy

Kris Gopalakrishnan

The current CII President was demoted from Executive Chairman to Vice Chairman

UP

V. Balakrishnan

The former CFO is known to be close to Murthy. He may be given more responsibilities

QUESTION MARK

Ashok Vemuri (left) and B.G. Srinivas

Infosys has three CEO aspirants to succeed Shibulal – Ashok Vemuri, who heads manufacturing and engineering services, B.G. Srinivas, who runs banking and financial services, and V. Balakrishnan. The jury is still out on how Vemuri & Srinivas will be affected

company Murthy co-founded with six others in 1981. The $7.4-billion software giant is growing at a slower pace than the industry: Infosys grew at 6.6 per cent in dollar terms in 2012 compared with an average 13.3 per cent clocked by India's top five vendors, according to research company Gartner. It has also lost its No. 2 position in the infotech industry – after TCS, which was always No. 1 – to Cognizant Technology Solutions. Infosys blames the slowdown in its key US and European markets, but industry experts say the company's culture is also a key reason for its decline. "The culture has changed at Infosys from wanting to be the best to possibly focusing too much on margins. Usually, you saw them at the top in quality terms. In recent years they were quite often second or third," says Ramji. BT, once Infosys's largest customer, has reduced its business with the company.

Markets were delighted with Murthy's return. The company's stock – which fell to its lowest in a decade in April – leapt up as much as nine per cent soon after the announcement. Former employees say the 67-year-old founder will function as a de-facto CEO from now on, dictate board proceedings and make strategic moves. Murthy was first CEO until 2002, when fellow founder Nandan Nilekani took up the job, and then Chairman until 2011 when he stepped down from the board and became Chairman Emeritus. Sources say Murthy considered a co-CEO model when Infosys approached him to come out of retirement early in May. Eventually, CEO S.D. Shibulal retained his position in the restructuring. Kris Gopalakrishnan was demoted to Vice Chairman from Executive Chairman while Non-executive Chairman K.V. Kamath stepped down to become Lead Independent Director. Murthy is setting up a team to assist him, which includes his 30-year-old son, Rohan Murty, who has joined the company as his father's Executive Assistant. Rohan Murty is a fellow at Harvard University.

BT RETRO

In its February 17, 2013, cover story 'Missing Murthy', *BT* asked Murthy if he would ever return to lead Infosys. He replied: "I don't think so, but who knows? I don't want to say never"

Despite the thumbs up from investors, some analysts are sceptical about Murthy's forthcoming five-year term. They feel he should give himself just two years to galvanise the company and then hand it over to a younger executive who can connect better with young workers. Many CIOs are way younger than Murthy – the average age of an Infosys employee is 28. "Murthy may find it difficult to connect with the new CIOs who work in small agile teams, who think of in-sourcing and not outsourcing," says Ramji.

Infosys has three CEO aspirants to succeed Shibulal – Ashok Vemuri, who heads manufacturing and engineering services, B.G. Srinivas, who runs banking and financial services, and V. Balakrishnan, the former Chief Financial Officer whose business responsibilities are rising. "If you have a powerful figure like Murthy for five years,

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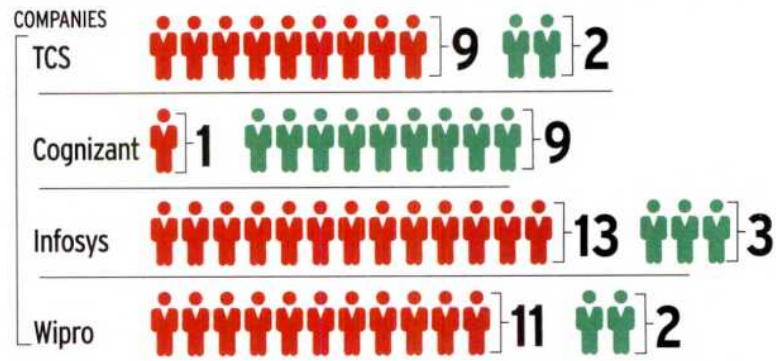
For previous stories on Infosys, go to www.businesstoday.in/archives-ju

Home and the World

Some analysts say Infosys is at a disadvantage because of the preponderance of Indians on its board which suggests it lacks diversity and a global vision. But that is true of other leading IT companies as well, barring Cognizant



Source: Company annual reports/website

it means no one else has a chance at the top job," says Peter Schumacher, founder of Value Leadership Group, a management consulting firm. "Infosys has already lost a lot of leaders. What happens to the careers of other CEO aspirants? I'll be surprised if it stands even a chance of getting a foreign CEO into the company."

Many experts say Infosys should scout for more talent overseas because the predominance of Indians on its executive council and board suggests it lacks diversity and global vision. Cognizant is far ahead of Infosys in terms of both non-Indian senior executives as well as board representation. "The game changer will be to move Infosys from being an India-centric business to one that is globally synergistic and inclusive. That is the only way you can get the top talent that you need in Europe and the US, the only way to capture the imagination of customers, the only way to compete with Accenture, Cognizant and IBM," says Schumacher.

Analysts say Murthy's immediate task will be to lift staff morale. "Infosys staff morale is low and the quality of the middle management needs strengthening," says Phil Fersht of HfS Research, a Boston-based IT advisory. "The company has to redefine what it means to be an Infosys employee and incorporate staff development programmes to recreate a culture that can compete effectively. Bring in some external talent to drive this approach. Globalise the management team." As a first step, after Murthy's return, Infosys has already announced an eight per cent salary hike for its Indian employees and a three per cent rise for those overseas.

Experts say Infosys does not have the luxury of time. Markets will judge whether Murthy is a success in just three quarters

Pradeep Mukherji, who heads management consulting company Avasant's Asia operations, says there is no rule that stops Murthy from handing over the reins without completing his five year stint. "Murthy's role would be course-corrective. He knows the company. For him, it is easiest to carry out the corrections and then hand over the reins to someone else," he adds. Course corrections would include instilling discipline in the top management. In its February 17 cover story 'Missing Murthy', *Business Today* reported that V. Balakrishnan did not see eye-to-eye with CEO Shibulal; Vemuri and B.G. Srinivas did not get along well either. The company's 16-member board may also have to be pared. More members mean more opinions and more time spent in aligning their ideas.

Experts say Infosys hardly has the luxury of time. Schumacher of Value Leadership Group estimates TCS could be a $20 to 25 billion company and Cognizant could touch $15 billion in five years, while Infosys will lag its rivals if it does not lift its performance soon. How long will investors wait for a turnaround? "The markets will judge whether Murthy is a success or failure in three quarters," says a former senior Infosys employee who does not want to be named. That is all the time he may have to correct previous mistakes. Or else when the history of Infosys is written, Murthy could well be blamed for backing co-founders who took the firm on a downward spiral. ◆

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Commitment Pangs

India has allowed foreign investment in multi-brand retail, but policy riders are holding back global supermarket chains from setting up shop.

By MANU KAUSHIK

* Projected
Source: Deloitte Touche Tohmatsu India

On a sultry afternoon in May, the commerce and industry ministry in Delhi had an unexpected rush of people. The minister, Anand Sharma, welcomed his nervous guests, including UK retail giant Tesco Group Chief Executive Philip Clarke and Indian retail company Trent's vice-chairman, Noel Tata – and then quickly got down to business. Over the next 45 minutes, Clarke and his team expressed their reservations about India's policy on foreign investment in the retail sector, while Sharma assured them they would face no problems. Tesco is one of many foreign retailers waiting in the wings since the government threw open the multi-brand sector to foreign investment last September. It hopes to team up with the Tatas to set up shop in the country.

But barely a month after their meeting with Sharma, the retailers are probably on tenterhooks again. Early in June, the government issued a set of clarifications to last year's retail rules which are likely to delay their entry into India. The department of industrial policy and promotion (DIPP) said foreign retailers entering India must build new supply infrastructure such as cold-storage facilities and warehouses, rather than buy existing assets. They have to invest a minimum $100 million, 50 per

GRUDGING ACCEPTANCE

Other countries with strict policies for foreign retailers

INDONESIA
- Foreign retailers are not allowed to operate supermarkets with floor space of less than 1,200 sq mtrs

MALAYSIA
- Prohibits foreign involvement in supermarkets, but allows it in hypermarkets with at least 30% local stock

THE PHILIPPINES
- Foreign ownership of retail trade enterprises with a paid-up capital of less than $2.5 million is not allowed

CHINA
- Foreign investors with over 30 stores distributing certain products cannot own more than 49%

cent of which must be in back-end infrastructure. A foreign chain's wholesale or cash-and-carry operations are not considered back-end infrastructure. Foreign retailers also have to source at least 30 per cent of their manufactured and processed products from small and medium enterprises. Fresh produce does not count as part of this 30 per cent. Such riders are particularly difficult for players such as Tesco because fresh produce is likely to account for 85 per cent of its sales.

Foreign retailers have been waiting at India's door for years, but analysts say they are unlikely to make significant investments over the next two or three years. According to a report by ratings firm CRISIL, the sourcing and back-end investment rules "are worrisome for foreign retailers operating in retail verticals apart from food and grocery, as segments such as apparels and electronics do not require huge back-end investments".

Ambiguity in the retail policy is also likely to deter investors. For example, foreign retailers are not sure if the 50 per cent back-end investment clause only applies to the first tranche or every subsequent investment. Arvind Singhal, chairman of retail consultancy Technopak, says this will deter big retailers such as Walmart, Carrefour and Tesco. "Globally, most retailers invest largely in front-end. The clarifications are not going to make the application process simpler," he says.

Tesco and Walmart say they are reviewing the clarifications. "They have messed up the whole thing. The clarifications do not clarify anything. In fact, they create more doubts," says a senior executive with a leading foreign retailer on condition of anonymity. A DIPP official involved in drafting the policy says the department has not changed anything, but only clarified the rules. "The intent was to create new infrastructure that will benefit the country," he says.

Indian retailers expecting to forge tie-ups with foreign companies are disappointed. Future Group CEO Kishore Biyani says the policy seems to have been drafted only for food retailing. Typically, only food retail chains need to invest in back-end infrastructure. "It does not make sense for retailers engaged in multi-brand retailing of furniture or stationery," says Biyani.

A clause banning foreign retailers from using the franchisee route also crimps their plans. Most foreign retailers planned to use this model to set up shop in states that do not allow multi-brand retail. The policy also says retail stores are only allowed in cities with a population of over one million. India has 53 such cities. But the number gets crimped since only 11 states and union territories allow foreign presence in multi-brand retail. "Only 15 cities fit the bill. Retailers work on volumes," says the foreign retail executive.

India is not the only Asian country wary of foreign retailers. China too opened its market in stages, first allowing foreign retailers a minority stake in retail operations in some cities and then relaxing regulations after domestic retailers had established themselves. Analysts say foreign retailers may not firm up their India plans until the election. "With elections around the corner, there's a constant fear that the new government might change the rules," says Paresh Parekh, partner, Ernst & Young. ◆

SHARE OF ORGANISED RETAIL AS A PERCENTAGE OF TOTAL INDUSTRY

Figures in per cent
Source: Technopak and ICRIER

Send your comments to editor.bt@intoday.com

STARTING TROUBLES

The commissioning o Sasan Power, Anil Ambani' ambitious mega projec flies into allegations tha it was hurried through fo financial benefit

By ANILESH S. MAHAJA

On the back foot: Reliance Power CEO J.P. Chalasani

he fortunes of Sasan Power Ltd (SPL), a wholly owned subsidiary of Anil Ambani-led Reliance Power Ltd, are followed with interest in India's electricity circles. The coal-fired project SPL is setting up is important in India's electricity landscape as it promises to sell power at the lowest tariff in the country – at an average of ₹1.19 a unit for 25 years. Today, it is hard to purchase electricity even at ₹4 a unit.

Located at Sasan in Madhya Pradesh's Singrauli district, the plant will have six units of 660 megawatt (MW) and entails an investment of more than ₹23,000 crore. It is one of a series of ambitious projects the government envisaged nine years ago to rapidly expand generation capacity. A legal spat, then, over its commissioning has grabbed the power industry's attention.

On April 4, Reliance Power said in a press release the first unit began commercial operations from March 30. However, buyers of electricity from the project as well as the regional grid operator say the company hurried through the

For Jayarama P. Chalasani's interview, go to www.businesstoday.in/reliance-chalasani

unit's commissioning without meeting the required performance parameters for financial benefits.

SPL has a pact to supply electricity to distribution companies in seven states in central and north India. Initially, the buyers seemed to accept March 30 as the commissioning date. Some of them, as well as the grid operator Western Regional Load Despatch Centre (WRLDC), have now challenged the date before sector watchdog Central Electricity Regulatory Commission (CERC).

The commissioning date is important as it will determine the tariff SPL can start charging from the buyers. An adverse CERC ruling could impact the earnings of both SPL and its parent. How? As per the Power Purchase Agreement (PPA) with the buyers, SPL had to supply electricity at a tariff of 69.8 paise per kilowatt-hour for the first year, 70.2 paise for the second, and ₹1.313 for the third year. If March 30 is the commissioning date then the first year would be 2012/13, or the year which ended March 31. This means the company will be able to charge higher tariffs sooner. A setback at the CERC would mean SPL would have to charge the lower first-year tariff from the year of commissioning.

Back-of-the-envelope calculations suggest SPL will save about ₹60 crore if the commissioning date is March 30 and it is able to move to a higher tariff from April 1. Besides, it will not have to pay liquidity damages of about ₹20-30 crore a month that distribution companies could have sought for any delay because March 31 was the revised deadline to commission the first unit.Reliance Power CEO Jayarama P. Chalasani told *Business Today* there were "commercial interests" in commissioning the unit in March. "We informed all concerned regarding this (commissioning test) well in advance. No one objected to it."

The Sasan project has been in the thick of controversies from the start (see *Dogged by Controversies* on next page). It is one of four 4,000 MW ultra mega power projects the government has awarded so far – three to Reliance Power and one to Tata Power. While Tata Power has commissioned its entire Mundra project in Gujarat, Reliance Power's three projects are at various stages. Reliance Power has stopped work at the Krishnapatnam project in Andhra Pradesh, citing changes in Indonesian law on coal exports. Construction at the Tilaiya project in Jharkhand hasn't yet started.

SPL began its commissioning test for the first 660 MW unit on Holi, March 27, when demand for electricity was relatively low. The parameters to find out if SPL passed the commissioning test are contained in the PPA, which is a legal document that also mentions the conditions for generation and sale of power. As per the PPA, SPL needed to generate at least 95 per cent of the contracted capacity, or about 620 MW, for 72 hours before the unit could be de-

"We informed all concerned regarding this (commissioning test) well in advance. No one objected to it"

J.P. Chalasani, CEO, Reliance Power

CLAIMS, COUNTERCLAIMS

What the Power Purchase Agreement says

- The operator shall demonstrate generation of at least 95 per cent of the contracted power capacity of 660 MW
- Supercritical technology must be tested
- The capacity must be ramped up at a rate of one per cent per minute

What the independent engineer's report says

- The unit could only generate a maximum of 161 MW during the performance test
- Supercritical technology could not be tested due to grid restrictions
- Ramping up the rate could not be checked as it needs a minimum generation of 50 per cent of the capacity

What Reliance Power says

- It could not produce more power as the Western Regional Load Despatch Centre did not allow full load generation
- The independent engineer and the buyers had accepted March 30 as the commissioning date of the first unit
- The Power Purchase Agreement allows Sasan Power eight chances to conduct the tests again in the next six months

cleared commercial. Why? Running the unit at this rate helps detect any troubles the plant might experience in the future.

The PPA says an independent engineer must monitor and sign off on the commissioning test. The independent engineer, in this case Lahmeyer International, is a crucial link in the process. In its report, reviewed by *Business Today*, Lahmeyer said the unit generated between 101.38 MW and 161 MW of electricity, way short of the target. The report also says the unit could not meet the other parameters including testing the supercritical technology. Chalasani does not dispute the numbers, but blames WRLDC for the low generation. "We were ready to test at full capacity."

₹1.19
The average tariff per unit of power from the Sasan project for 25 years

WRLDC is part of state-run grid operator Power System Operation Corporation (PoSoCo), a subsidiary of transmission utility Power Grid Corporation of India. The Sasan plant is connected to WRLDC and the electricity it generates is transmitted to distribution companies through PoSoCo. WRLDC counters SPL's arguments. "We restricted generation only for one day (March 27) as demand was low because of Holi," says P. Pentayya, General Manager, WRLDC. "During the tests, we repeatedly gave them instructions to ramp up their capacity. But SPL did not follow these instructions."

Documents filed as part of the WRLDC's petition with the CERC show that, from March 27 to March 29, SPL sent four emails seeking permission to raise the load. On March 29, at 10:20 pm, the grid operator allowed SPL to raise generation to 200 MW. SPL could not reach this mark. On March 30, at 7:18 am, WRLDC asked for SPL's plans for a full load test. SPL didn't respond. Chalasani says the message came 60 hours after SPL had been running the unit at a low load. Ramping up generation at the time "was not possible at all" due to technical reasons, he adds.

After the tests, Lahmeyer accepted "part-commissioning" of the SPL unit. "We made our findings clear in the report as per the PPA. There was no extra concession for Reliance Power," says C.N. Murty, Executive Director (Energy Business) at Lahmeyer. He could not pinpoint the clause in the PPA that allows for part-commissioning of the unit.

Madhya Pradesh Power Management Company (MPPMC), the lead buyer of electricity from Sasan, has objected to Lahmeyer's report, says Mohammad Suleman, the state's power secretary. Lahmeyer did not conduct proper due diligence before giving its approval, he adds. Padamjit Singh, a consulting engineer with Punjab State Power Corporation, one of the buyers, agrees. "The report was not done properly. The test not only flouted the PPA, but also the rules set by the CERC and the CEA (Central Electricity

161 MW
The maximum capacity the 660 MW Sasan unit touched during the commissioning test

DOGGED BY CONTROVERSIES

The Sasan ultra mega power project (UMPP) has faced multiple problems from the time it was conceived

January 2005
The Ministry of Power notifies its 'UMPP policy' to build 4,000 MW power plants with assured coal linkages

December 28, 2006
Lanco Infratech consortium wins the right to build the Sasan plant

July 25, 2007
The government declares the Lanco consortium's bid invalid

July 31, 2007
The power ministry seeks fresh bids. Reliance Power clinches the deal, promising power at ₹1.19 per kWh

August 14, 2008
An Empowered Group of Ministers allows Reliance Power to divert excess coal from Sasan to another plant

January 5, 2009
Tata Power cries foul, moves the Delhi High Court

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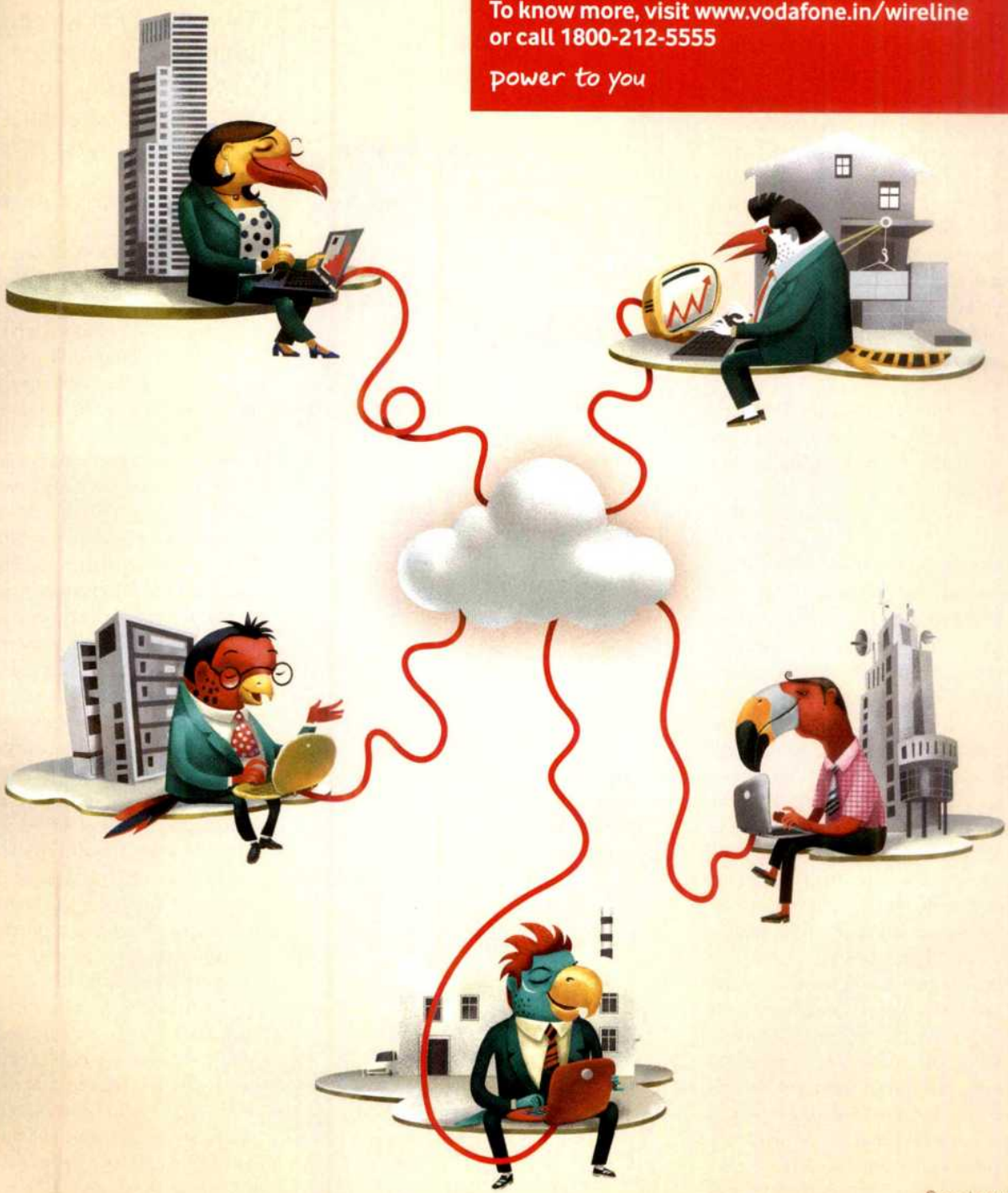

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Authority). The veracity of the report needs to be probed."

A review of the communication between SPL and the buyers, all filed as part of the petitions before the CERC, raises questions about SPL's claim of clearing the commissioning test. Three oddities:

- Lahmeyer's report, at 10:23 pm on March 30, certified the unit generated 101.38 MW and okayed starting commercial operations at this capacity.
- WRLDC in an email at 12:34 am on March 31 accepted the declared capacity at 101.38 MW. Later, it asked SPL to take acceptance from all buyers.
- On April 2, the Madhya Pradesh utility sent SPL a letter accepting Lahmeyer's report. Other buyers followed suit.

WRLDC approached the CERC on May 9. WRLDC lawyer Sitesh Mukherjee told the regulator that, after its initial email to SPL, the grid operator took legal opinion and found out that SPL's move to commission the unit violated several rules.

Manu Srivastava, Managing Director, MPPMC, says his company does not accept the unit's commissioning and had told this to authorities and SPL on March 31. Srivastava's position is at odds with the communication between MPPMC and SPL. On April 2, MPPMC Executive Director Rajesh Mehta wrote a letter to SPL accepting the independent engineer's report. Srivastava did not have an explanation for this. "We told them (SPL) we would agree to buy electricity only if the unit's capacity is derated," he says. De-rating is a technical process that would mean SPL cannot sell more than 101.38 MW.

Chalasani says Lahmeyer and the buyers had accepted March 30 as the commissioning date. His version, as detailed by the sequence of events during and immediately after testing, is accurate. But the contents of the emails and letters are subject to interpretation and legal veracity.

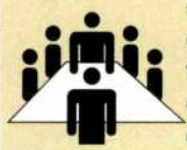
Chalasani also says clause 6.3.4 of the PPA allows SPL eight chances to retake the tests in next six months. Singh, the engineer at the Punjab utility, disagrees. He says the clause specifies procedures for de-rating after a unit is commissioned. The Sasan unit, he says, could not be commissioned as it did not achieve the required conditions.

So, what's in store for SPL? On June 6, SPL told the CERC the unit achieved full capacity load and was ready for another test from June 10. During the test on June 11, demand for power fell after rain in states including Maharashtra and the unit was asked to shut down, says WRLDC's Pentayya. He adds the grid operator later asked SPL to restrict generation at 450-480 MW. The company, however, will have to run the unit at 95 per cent capacity for 72 hours before it can be commissioned.

No buyer has so far bought electricity from the project, waiting for the CERC to settle the issue. If the CERC rejects the March 30 date – which seems likely – SPL will have to redo the tests. "We want cheap power. Electricity from Sasan will cut down our expenses by at least 47 paise per kWh," says Srivastava of MPPMC. "But we will not compromise on legal provisions." ◆

April 14, 2009
Tata loses case. In May, it moves the apex court. The case is still pending

April 27, 2012
The EGoM ratifies the coal diversion despite the CAG's objections in a draft report



August 17, 2012
The CAG again objects to the coal diversion from Sasan in its final report

March 14, 2013
Reliance Power moves the CERC for a tariff hike, citing changes in the law and the rupee's fall

April 4, 2013
Reliance Power announces commissioning of the first unit at Sasan from March 30

May 9, 2013
The Western Load Despatch Centre moves the CERC, challenging the unit's commissioning

101.38 MW
The capacity at which Lahmeyer certified the Sasan unit could start commercial operations

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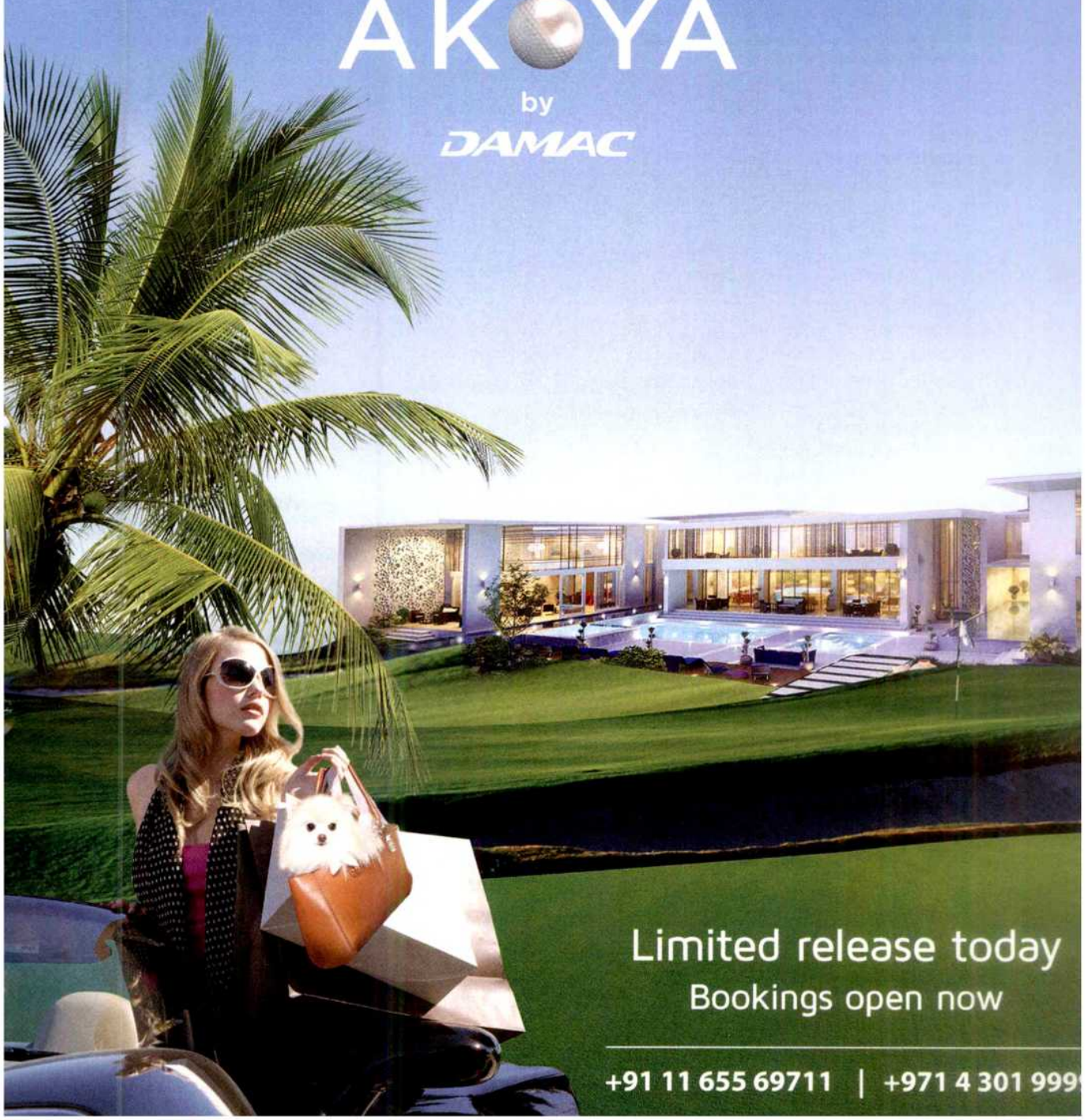

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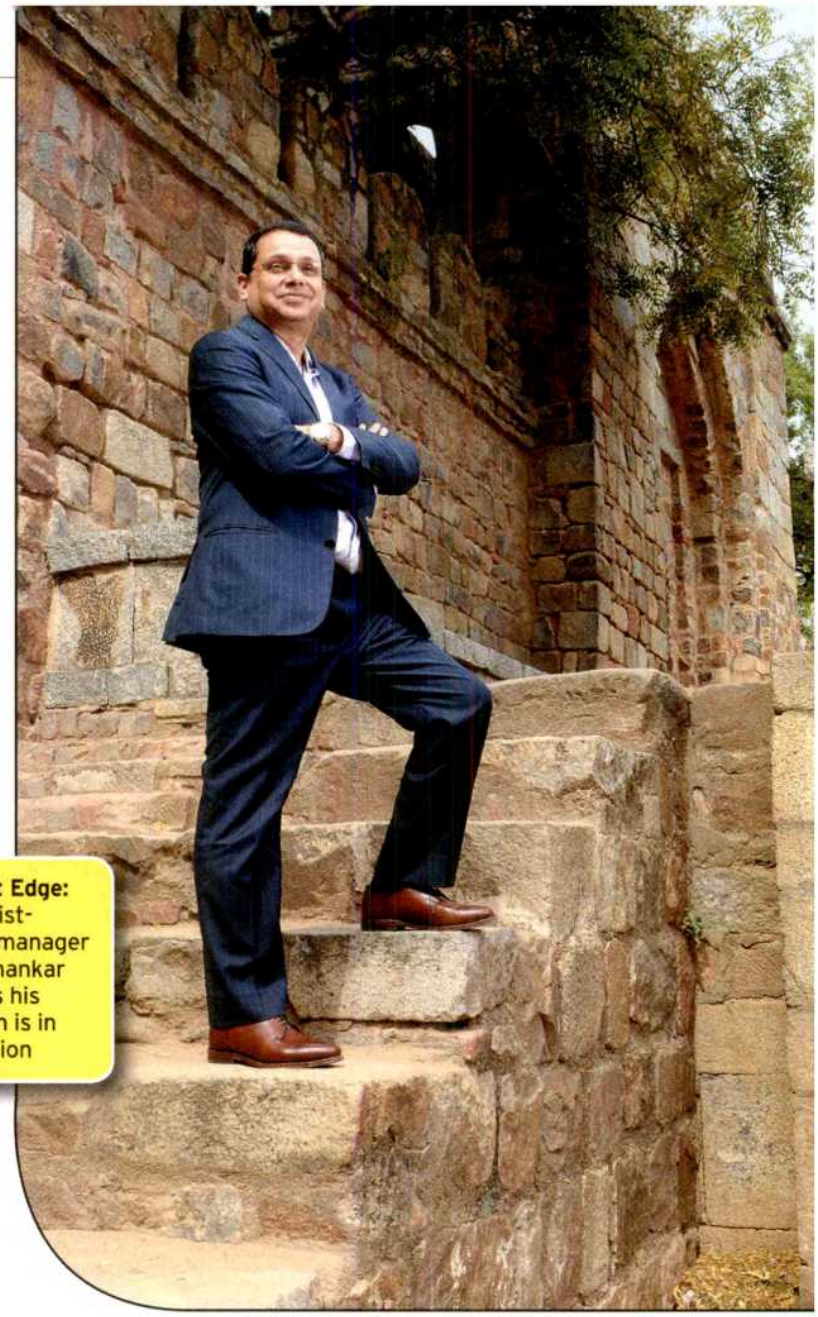
By SHAMNI PANDE and AJITA SHASHIDHAR

There is a new spring in Uday Shankar's step. The entertainment channels of Star India, the Indian unit of Rupert Murdoch's News Corp empire and the company that Shankar leads as chief executive, are back firmly at the No. 1 spot by viewership in the country elbowing out Johnny-come-lately rivals. Revenues, estimated at nearly ₹6,400 crore, have expanded at 25 per cent in the last five years – vaulting it to among India's biggest media companies.

But the hunger for growth is a constant in any business and Shankar is willing to risk all his success on the next big bet he's making to grow the Star India franchise: on sports. The punt is an expensive one and, if it goes wrong, could crash his 23-year career that is spectacular by any count. Star is in the middle of spending ₹5,000 crore on bootstrapping sports viewing in a country of some 650 million cricket-crazed consumers. In doing so, Shankar and team aim to make



Content Edge: Journalist-turned-manager Uday Shankar believes his strength is in production

SHEKHAR GHOSH/www.indiatodayimages.com

STARRING ROLE

How Star India expanded its presence since 2000

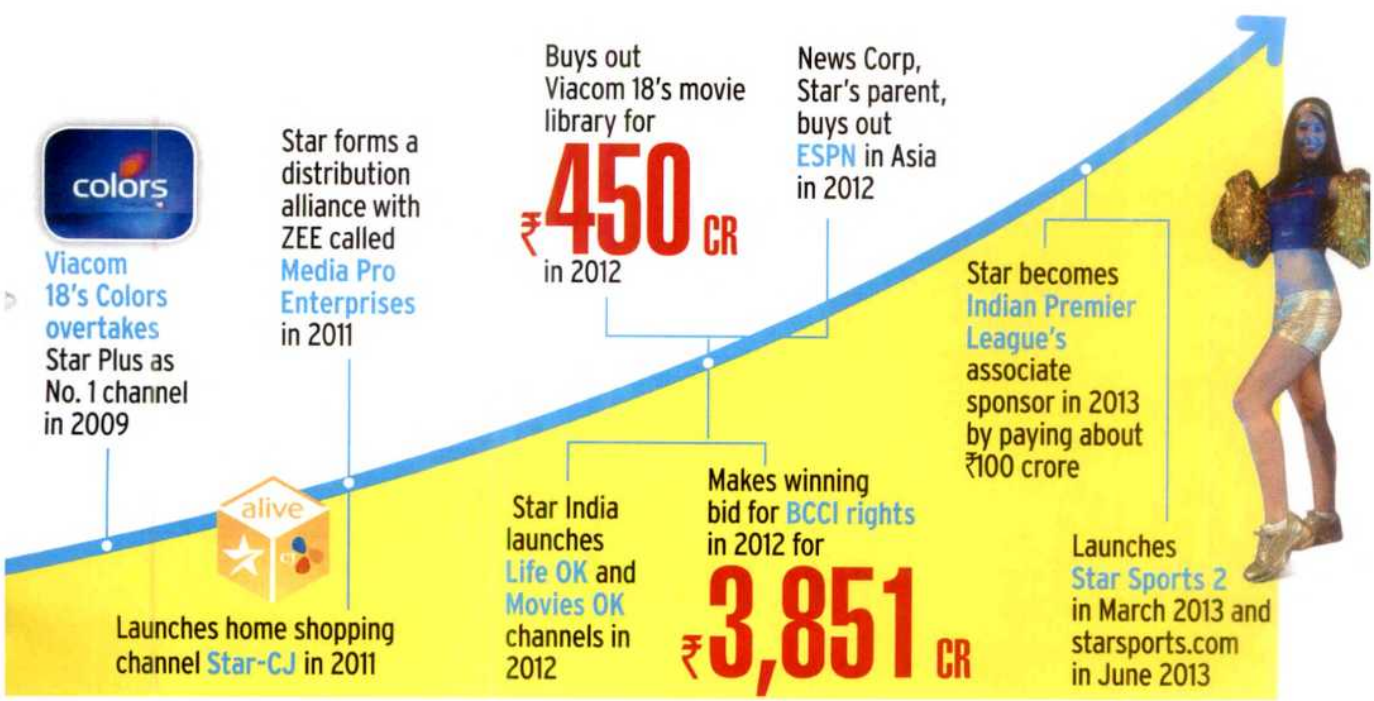
- **2000** – Kaun Banega Crorepati propels Star Plus to the No. 1 position in 2000
- Women-oriented soaps ensure Star Plus stays on top for another six years
- Peter Mukerjea and Sameer Nair quit in 2007, taking nearly 170 people with them
- Uday Shankar appointed as COO in 2007; re-designated as CEO in the same year
- Star India takes controlling stake in Asianet in 2008
- Launches Star Jalsha and Star Pravah in 2008

MASTER OF HIS GAME

STAR INDIA'S UDAY SHANKAR, ALREADY TOP DOG IN GENERAL ENTERTAINMENT, WANTS TO PROVE HIS METTLE AGAIN IN SPORTS TV

sports the new religion in the world's youngest population: by taking broadcasting to local-level tourneys; producing sports programming in regional languages; expanding beyond cricket into sports such as hockey and, even, kabaddi; and powering digital delivery of content via the Internet.

If that means going beyond passively telecasting sports events and getting deeper into how sports is organised in India, so be it. "It's a very simple sociological insight, that passionate consumers of sports are, sort of, surrogate players of that sport," Shankar told *Business Today* during two extensive conversations. "So unless the way sports is organised and distributed and played in this country, unless that changes, the landscape of sports will not change and the business of sports will not change. We are hop-



"REVENUE DEPENDENCE ON STAR PLUS HAS BEEN REDUCED TO 45% FROM 74%"

NISHIKANT GAMRE

SANJAY GUPTA, COO, Star India

ing to work with the sports authorities and the boards, to make local sports popular. If we fail to do that, then our punt will be wasted."

What's in it for Star that runs 28 channels in India? Shankar concedes a big structural weakness in Star's India success story is that a disproportionate share of its viewers is female. The female viewership on Star's channels was as high as 70 per cent in 2010. "Sports was the offshoot of thinking about ways of getting the male audience," Shankar, 50, says. "Women like to consume drama, but for the male audience, their primary source of content consumption is movies, news and sports." Star fixed its movies handicap in 2012 with the buyout of Viacom 18's movies library and a renewed push with the launch of its Movies OK channel as well as a raft of regional channels for cinema.

Today, excluding sports, the composition of Star's viewers is roughly 48 per cent female and 33 per cent male; the rest of the audience is children. With sports, say company insiders, it hopes to correct that ratio to 42 per cent female and 38 per cent male. A young male viewership adds appeal to advertisers selling to that audience. "Sports targets the young male group, a category which the automobile companies and the telcos prefer to target. By investing in sports, Uday has captured the entire TV watching universe as well as all kinds of advertisers," says Shashi Sinha, CEO, IPG Mediabrands, which buys space or airtime on behalf of its advertiser clients.

The hard-nosed drive into sports is expected to add fat revenues at Star India. The sports business of six channels, currently housed under a company called ESPN Software India and accounting for about 20 per cent of the Star Group revenues in the country, will be brought into the Star India fold soon. Sports revenues are expected to accelerate and grow about 30 per cent annually in the next two to three years.

To be sure, the increased spending on sports will dent profits at Star India. Vivek Couto, Executive Director of Media Partners Asia, a Hong Kong-based media consultancy, says Star India, which has in the past enjoyed operating profit margins of 30 per cent, will find profits under pressure for the next two-three years because of the additional investment in sports. Shankar keeps away from the numbers (Star India is not listed and it is not obliged to make financial numbers public) and is modest when he talks about breaking even on Star India's sports bet: "It's a long-term investment; it will take a few years."

STAR PLUS
FIRST-TIMER PRODUCERS REPLACED K-SERIALS IN 2008. SOME LIKE SHASHI AND SUMEET OF NO. 1 SHOW *DIYA AUR BAATI HUM* EXCELLED

The Boy from Patna

Sussing up Shankar is important to understand the strategy he has crafted for Star and, while doing so, first discount his modesty. He's won most of the battles since taking over the reins at Star India in May 2007. He's lost a few, too: he talks about how he was worried about retirement when he travelled to New York for a review with Murdoch and other

₹4,000 CR
INDIAN SPORTS TV REVENUE

₹1,600 CR
STAR INDIA'S SPORTS REVENUE

Source: Industry

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BRIGHT STAR

Star TV runs 28 channels in India. How the major Star channels stack up against their main rivals in terms of gross rating points*

GENERAL ENTERTAINMENT (HINDI)

Star Plus	**255**
Zee	203
Colors	192
Sony Entertainment	164
Sony SAB	137
Life OK	**121**
Star Utsav	**51**

SPORTS

Star Cricket	**29**
Sony Six	18
Ten Sports	14
Star Sports	**11**

GENERAL ENTERTAINMENT (ENGLISH)

Z Cafe	2
FX	2
AXN	3
Star World	**3**

MOVIES (HINDI)

Sony Max	
Zee Cinema	
Star Gold	**1**
Movies OK	**5**
UTV Action	

MOVIES (ENGLISH)

Star Movies	
HBO	
Movies Now	

GENERAL ENTERTAINMENT OTHERS

(MARATHI)

Star Pravah	**223**
Zee Marathi	192
ETV Marathi	82

(BENGALI)

Star Jalsha	**446**
Zee Bangla	378
ETV Bangla	73

(TAMIL)

Sun	1,113
Vijay	**216**
Kailagnar TV	131

(MALAYALAM)

Asianet	**736**
Surya	337
Mazhavil Manorama	216

(YOUTH)

V	
UTV Bindass	
MTV	

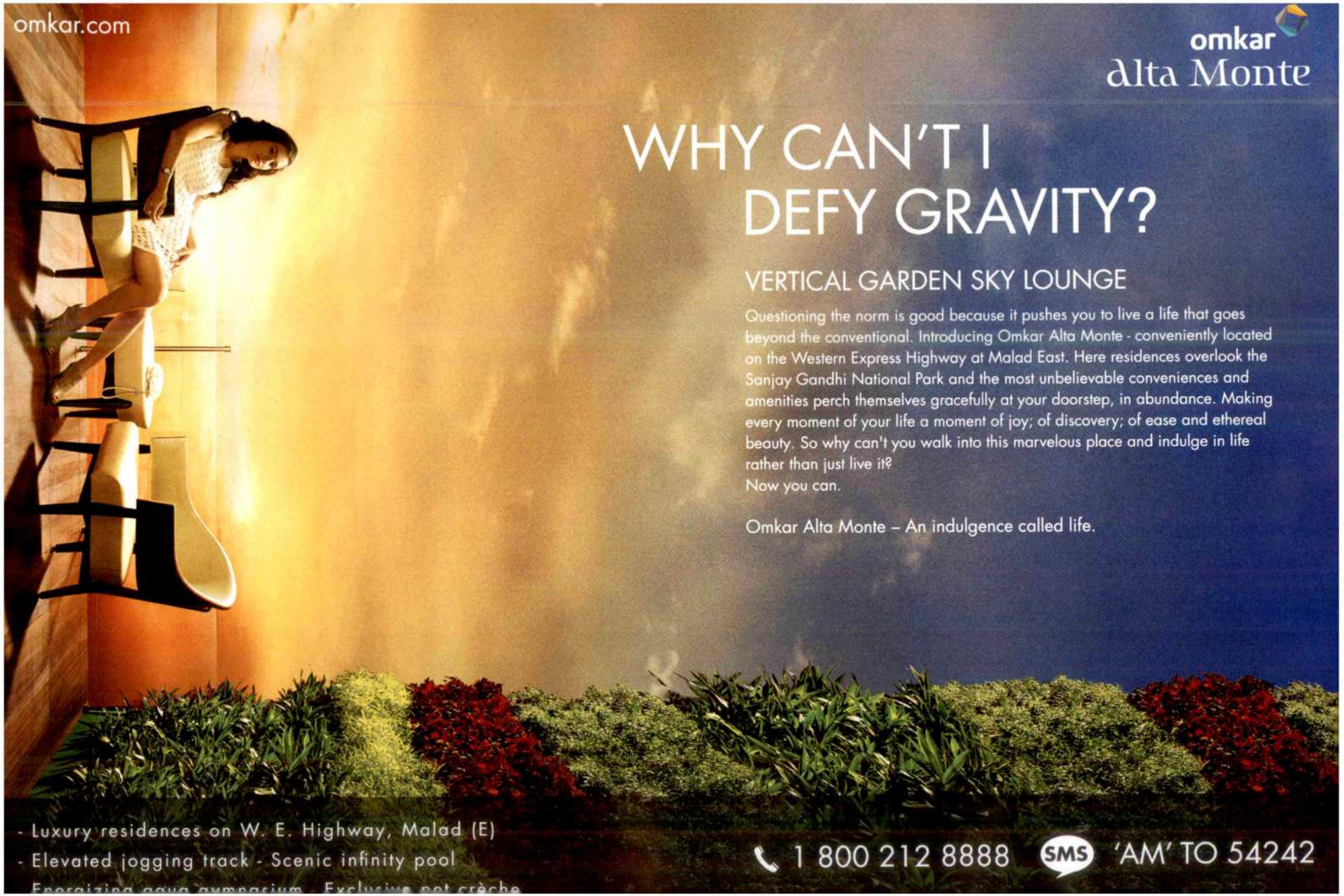
Source: TAM Data fro
*GRPs for the first 22 w

senior News Corp executives of the disastrous *Kya Aap Panchvi Pass Se Tez Hain* show in 2008. What he inherited was hardly something anyone could envy. "The top 170 people walked out with the two former stars of the system. He was left with a skeletal team and he has, to his credit, proven ground on many fronts," says Paritosh Joshi, former CEO of Star-CJ Network, Star India's home shopping channel. Joshi is referring to the exit of Peter Mukerjea, then Star Group CEO, and Sameer Nair, Star Entertainment's CEO.

As Star India CEO, Shankar came into a market set to change: 2008 was a tough year for Indian television when a rash of entertainment channels such as NDTV Imagine, 9x and Colors were launched. One of them, Colors, stole the thunder pushing Star Plus, the flagship Star channel briefly to No. 2 by viewership. That was also the first summer when the Indian Premier League cricket tournament, better known as IPL, debuted. A big believer in regional markets, Shankar finalised the majority acquisition of Asianet Communi-cations, a leading Kerala television company, in April 2008, and used it as a springboard into the Karnataka market. This was followed by the launch of Star Jalsha, in September 2008, to address the Bengali-speaking market and next in line was the Marathi general entertainment channel, Star Pravah, the same year. Virtually, all the launches and acquisitions hit pay dirt. Channel [V], too, climbed out of the morass it had slipped into, and staked its claim to the No. 1 spot in 2012. "He has re-arranged the deck very well," says Mukerjea of his successor.

LIFE OK
THE MYTHOLOGICAL SERIAL, *DEVON KE DEV MAHADEV*, HAS BEEN THE TOP SHOW AT LIFE OK, LAUNCHED TO FLANK FLAGSHIP CHANNEL STAR PLUS

What has emerged is a Star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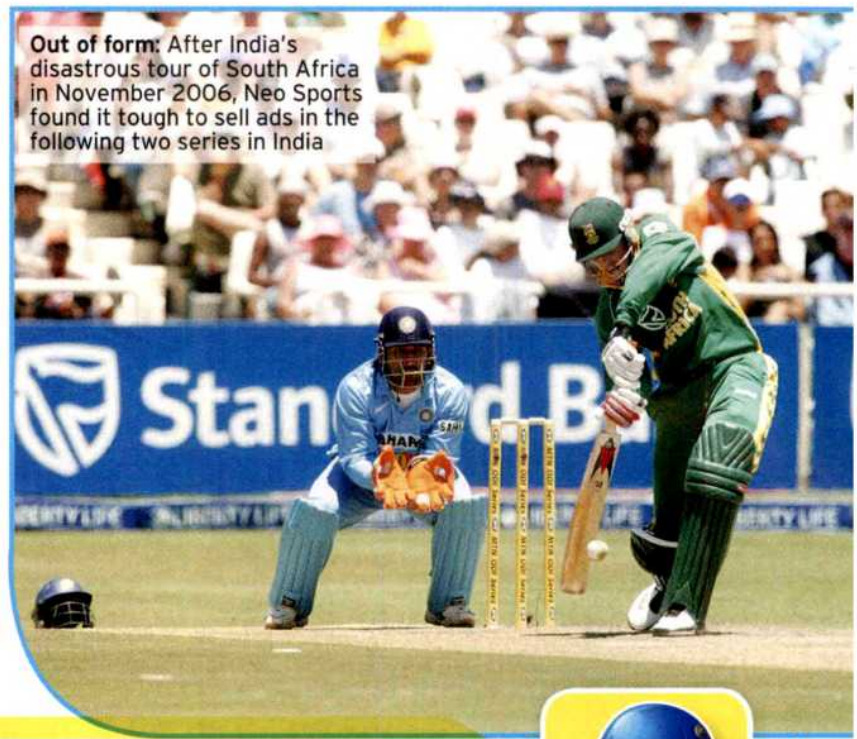
India that is well diversified with revenues spread out among its channels. "Dependence on our flagship channel (Star Plus) has been reduced to 45 per cent from 74 per cent in the heydays of even the K-serials," says Sanjay Gupta, Star India's Chief Operating Officer. By K-serials he is referring to the family drama programming – the popular ones were *Kyunki Saas Bhi Kabhi Bahu Thi* and *Kahani Ghar Ghar Ki* – that was the big draw on entertainment channels in the last decade until 2008, when Shankar decided to pull the plug on them because they made Star's programming look dated. Regional advertising makes for about 25 per cent, Hindi movie channels 11 per cent, English entertainment channels 12 per cent, and other channels around seven per cent.

GETTY IMAGES



Out of form: After India's disastrous tour of South Africa in November 2006, Neo Sports found it tough to sell ads in the following two series in India

90% SHARE OF CRICKET IN INDIA'S SPORTS MARKET

In the programming refresh, Shankar's experience with content programming – he started his career as a reporter at *The Times of India* edition in Patna, a city he grew up in – shone through. Atul Phadnis, Founder and CEO of TV guide company What's-On-India, says he admires "the ruthlessness or brutality with which (Shankar) threw out the K-serials... that had become impossible under former heads".

As he went around dusting up the company, Shankar rejigged his team, bringing in top managers with backgrounds in telecom and consumer goods. Gupta worked with Hindustan Unilever for 16 years and then Bharti Airtel. Nitin Kuckreja, the head of the sports broadcasting business, comes from Morgan Stanley. Anita Maheshwari, who runs the human resources function in a company of 1,400 people, comes from the insurance sector.

STAR INDIA

THE COMPANY'S STRATEGY IS BUILT AROUND ONE INSIGHT: WOMEN LIKE TO CONSUME DRAMA; MEN LIKE MOVIES, NEWS AND SPORTS

Legal head Deepak Jacob is from eBay. Such a team has allowed Shankar to take many cutting-edge decisions such as being the first broadcaster to launch high definition (HD) feeds or offering regional content in the sports genre.

People who have watched Shankar say he is unafraid to experiment. An M.Phil in Economic History from Jawaharlal Nehru University, New Delhi, Shankar had a quick succession of jobs after his stint at *The Times of India*. "Anything new interests me. Television was just starting and I just decided to quit my job and explore this medium. My wife supported me for seven months, when I had no job and was struggling," he says of his shift into TV in 1995

when he joined Zee. One of his subsequent jobs was with the *Aaj Tak* and *Headlines Today* channels, both part of the India Today Group that also publishes *Business Today*. He stepped into the News Corp. empire as Editor and CEO of Star News, which operated as a 26:74 joint venture between Star and the Kolkata-based ABP Group. Star exited that venture in 2012, selling its stake to ABP – a decision made by Shankar as Star India's helmsman. "We are clear that if we have no say in the management and ability to determine the destiny of a venture, we will not stay in it," he says.

Let's Play

Star India's strategy on sports shows its – and Shankar's – obsession with being in control of its destiny. Even if it comes with an expensive tag: it is paying the Board of Control for Cricket in India (BCCI, the body that runs cricket in the country) ₹3,851 crore for broadcast rights until 2018, and it plans to invest ₹1,000 crore to develop its sports business. This doesn't include the $335 million last year (about ₹1,675 crore then) that News Corp paid for Disney's 50 per cent stake in the ESPN Star Sports joint venture – a key platform for its splash into sports. Nor the ₹100-crore Star paid for ground rights in the IPL tournaments.

Some context behind the strategy first: sports in most developed markets constitutes almost a quarter of the total TV viewing and revenues,

STAR SPORTS

BESIDES CRICKET, STAR HAS RIGHTS TO BARCLAYS PREMIER LEAGUE, LA LIGA, WIMBLEDON, F1 RACING, HOCKEY INDIA LEAGUE. IT HAS PLANS FOR A KABADDI LEAGUE

while in India it is just two per cent. "We realised that most channels merely put live content on television and then slept over it. There was no meaningful content created to keep the buzz alive," says Star India COO Gupta. A school-level hockey player, he believes there is a sports fan in almost every Indian.

"This is make or break for Uday," says an industry observer. Advertising on sports is worth about ₹4,000 crore annually, of which cricket commands a 90 per cent share. The BCCI deal ensures Star will get a share of that pie – the rights to the popular IPL are with MSM India which broadcasts Sony and SET MAX channels – even if it forks out ₹42 crore a match starting this year. The deal, for six years to 2018, covers 96 matches, including all the international matches India plays at home and local tournaments such as Ranji Trophy, Duleep Trophy and Irani Trophy. Barring that it also has rights for the International Cricket Council's Champions League T20 until 2017 (it bagged this in 2008) and the ICC World Cup until 2015 (it won this in 2007).

Still, some professionals are sceptical. Only Indian matches played on home ground or in key markets get the desired viewership and life can be nightmarish for an ad seller if India doesn't do well. Shashi Kalathil, who led the Neo Sports channel in the 2005 to 2006 period, recalls how tough it was to sell ads after India's tour of South Africa in November 2006. "This series was followed by a double One Day International (ODI) home series, first against the West Indies then Sri Lanka. For the early matches, I could hardly sell any inventory because we lost in South Africa," says Kalathil. "But as India won early against the West Indies, selling inventory for subsequent matches and for the following Sri Lanka series was not a problem." Likewise, Sony lost some ₹1,500 crore in the ICC World Cup of 2007 when the Indian team didn't even make the quarter finals.

Unlike other broadcast businesses, in sports, a bulk of the inventory is not pre-sold, and that's where the Star ad sales team will face challenges. Digitisation could help a little. "There are three million Indians who watch tennis, 18 million who watch football. If I can get them to pay for the content that

150 MN

INTERNET USERS IN INDIA

12 MN

UNIQUE VISITORS TO STARSPORTS.COM

Source: Industry, Star India

"WE ARE GOING TO EXPERIMENT WITH INNOVATIVE CONTENT"

NITIN KUCKREJA, President (Sports), Star India

NISHIKANT GAMRE

I give them, it will make more economic sense. If I wait for the advertiser to invest on the basis of ratings, it will never yield much money," says N.P. Sathyamurthy, President & Head (Media), Mudra Max, a media-buying agency. The one difference for Star India, Kalathil says, is its deep pockets and the ability to weather losses for a longer period.

Not just that. There's also a small yet fundamental shift in the sports consumption habits of Indians, especially in big cities. And this is reflected in Star rival MSM's moves. It doesn't want more cricket for its new sports channel, Sony Six. MSM has acquired the rights for Euro 2016 and the European qualifiers for both Euro 2016 and the 2018 FIFA World Cup They also have rights for the NBA till 2015. "The Indian youth is moving away from the traditional form of cricket. The ratings for ODI and Test matches are very low, even advertiser interest is dying out. The IPL has shown us that Indians are looking at the fast form of the game," says Manjit Singh, CEO, MSM India. The ESPN acquisition, to be sure, gives Star access to properties such as the English Premier League and the Hockey India League.

Padding Up

How then does Star India team plan to monetise sports? The strategy, according to Nitin Kuckreja, President (Sports), Star India, is creating content around cricket. "We are going to experiment with innovative content – have interesting debates and analysis of various sports, do series of shows on the players, we may even try out sports-based fiction," he says.

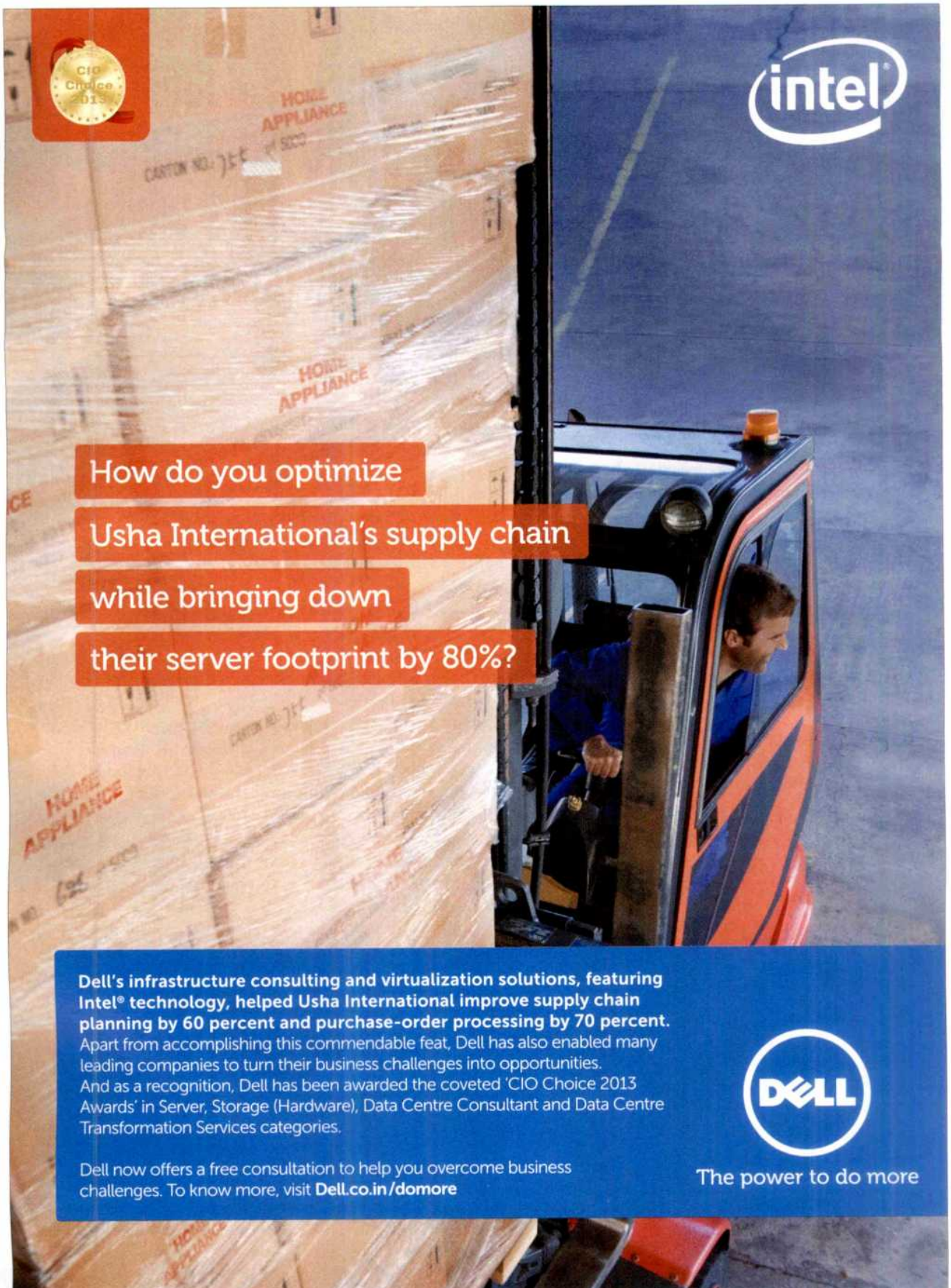
He gives the instance of the Hockey India League when Star unveiled a high decibel campaign a month before the tournament began across the network. It roped in actor Akshay Kumar as the brand ambassador and did around 1,000 promos around the event. "The time spent on each match increased from seven minutes in the first few matches to 14 minutes in the finals," says Kuckreja. A 5,000-seater stadium at Ranchi was packed for the final match, he adds, and about double that number watched the match on a large screen outside the stadium. Similar packaging is at work in the ongoing ICC Champions Trophy T20 tournament. Star has launched two chat shows, *Champion of Champions* and *Jai Ho*, with commentators Navjot Singh Sidhu, Harsha Bhogle and Saurav Ganguly.

The plan to go upcountry involves creating a buzz around the Ranji Trophy and Deodhar Trophy as also introduce regional feeds of coverage to bolster the Hindi commentaries and analysis that was introduced last year. Next, "you may get to see cricket in Star Jalsha with Bengali commentary," says Gupta. Adds Kuckreja: "We have realised that language is a big deterrent in getting eyeballs. The commentators speak in English and the analysis is also done in English. This has kept the masses away from sports channels." India has about 125 million people speaking English and, at some 400 million, more than three times as many who understand Hindi; some 85 million people speak Bengali.

STAR MOVIES

STAR'S ENGLISH MOVIE LIBRARY OF 500 TITLES INCLUDES SERIES SUCH AS *THE FAST AND THE FURIOUS, TERMINATOR, JURASSIC PARK* AND *X-MEN*

Another quiet push Star India is making is into content delivered on its website, starsports.com. Take a leaf out of the book of some content owners in the west, the website has a paywall. Coverage of the ICC Champions Trophy matches can be accessed for a fee of ₹110 a month. Star has tied up with broadband companies such as Bharti Airtel and Reliance Communications, and has also launched applications for the iPad, iPhone and Android. Gupta says starsports.com got 10 million unique visitors when the site was at the beta stage, which has grown to 12 million. To put that in per-



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spective, the Rediff portal gets 16 million unique visitors. Consultancy firm McKinsey projects India will overtake the US by number of Internet users with at least 330 million online by 2015, only behind China. That growth is reflected in the digital ambitions of Star India. According to industry insiders, its sports digital revenues spread over six years will be around ₹650 crore.

Shankar's plan on digital media is well founded. The same can't be said unequivocally of Star India's bet on sports, which is playing out

STAR NETWORK
IN A FIRST-OF-ITS-KIND DEAL, ALL UPCOMING MOVIES OF SALMAN KHAN AND AJAY DEVGN WILL BE SHOWN EXCLUSIVELY ON THE STAR NETWORK

at time when 21st Century Fox, a company with entertainment businesses hived off from parent News Corp, begins a life on its own; it begins trading on July 1. The number of "ifs" before Shankar's and Star's strategy are several – if Star India executes brilliantly, if it deepens the cricket market to regional and local levels, if viewership for non-Indian cricket matches jumps, if appetite for sports other than cricket grows, if its digital presence explodes... but this is all balanced by another if. If anyone can do it, Shankar is as good a bet as it gets.

Send your comments to editor.bt@intoday.com

There is a latent appetite for multiple sports, and it's waiting to be unlocked

Uday Shankar, *CEO of Star India, spoke about the company's plans in sports broadcasting during two extensive conversations with* **Chaitanya Kalbag** *and* **Shamni Pande**. *Edited excerpts:*

Do you plan to be as big in sports as you are in entertainment now?

Only time will tell, but yes that's the objective. And that's why we have shown very rapid commitment in deepening our position. So we have a lot of cricket.

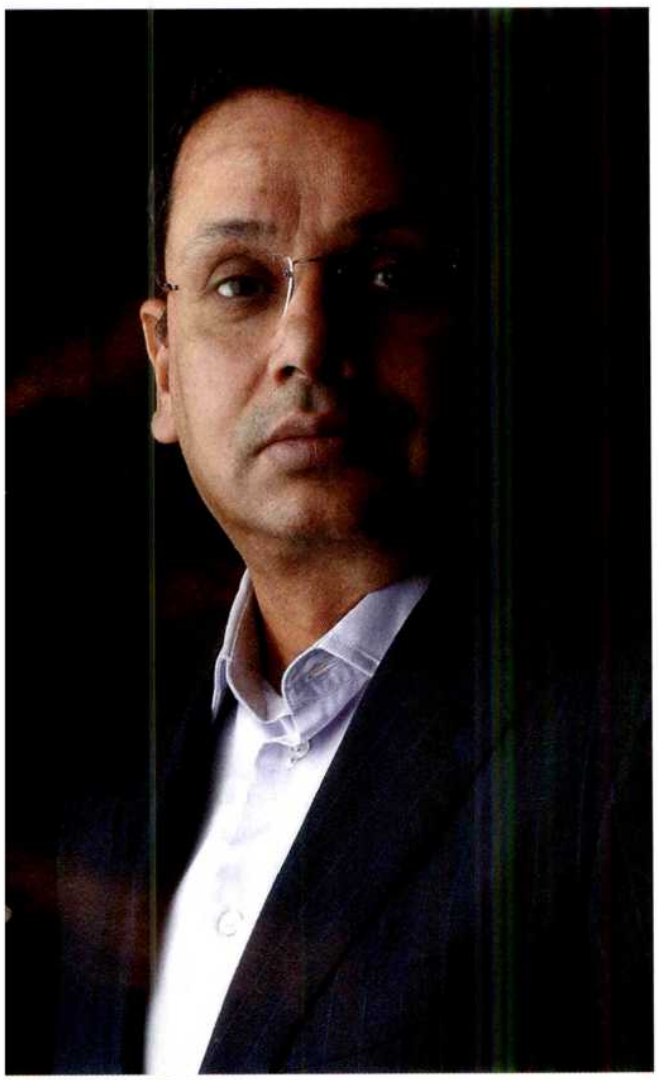
India's love affair with sports started with cricket... However, it has remained limited to India's international encounters. It's like a structure which is very tall, but very narrow. And that's a challenge. There is almost no parallel anywhere in the world. In the US, the bulk of the crowd that comes in is on account of the domestic encounters. They have college basketball, football, they have state, they have city, all of that. Here the Ranji trophy doesn't evoke any interest. There is nothing worth college cricket, let alone any other sport. And that is the problem...

If you look at the history here, the broadcast of sports, of cricket, started on Doordarshan. Around 20 years ago, the BCCI actually paid Doordarshan to carry cricket... But Doordarshan has its limitations. It used to broadcast only international encounters and we've remained steadfastly stuck on international encounters with the exception of the IPL (Indian Premier League)... But the funny thing is even the success of the IPL doesn't seem to have changed anything.

I believe, IPL viewership has actually been dropping?

It's dropped a little bit, but I'm not sure whether there is too much to read in that. I think it is seasonal. The format has worked very well for six years and people expect more. It's due for some innovation, it's due for some fresh blood in it. Once those things happen, the IPL will remain as strong.

Do you see Star using sports TV as means to not just transform viewing habits but also perhaps the way



SHEKHAR GHOSH

sports is organised in India?

We are hoping to work with sports authorities and the boards to make local sports popular. If we fail to do that, then our punt will be wasted... Unless the way sports is organised and distributed and played in this country, unless that changes, the landscape of sports will not change and the business of sports will not change. Neither for the broadcasters nor for the people that are organising it on the ground. That's what we're hoping to do.

So, it's a long bet?

Yes, it's a long bet. I'm very fortunate to work for a company that only takes long bets... Today we have a very attractive and satisfying franchise in entertainment. But it took us 20 years to get to where we are today. And the commitment that News Corp shows to that kind of thing is quite phenomenal. The economic volatility and all that, we're okay. That's beyond your control. The real problem is the systemic leakages and distortions. They hurt. Because you don't know how to fix it, even if the economy is booming.

What do you mean by systemic leakages?

The acquisition of cricket rights is expensive. And for very misguided reasons, several years ago, a law was passed that all sports (including cricket) of national importance would have to be mandatorily shared with Doordarshan. That was irrational... Now the problem is, that is played on all paid TV platforms – cable, DTH (direct-to-home), everything. So people are making money by providing content for which I have paid... We paid ₹32 crore per match to the BCCI and this value has gone up further to ₹43 crore. And Doordarshan gets to relay it for free... My problem is that all Doordarshan channels must be carried by all cable operators. So as a result of that, we're paying and we're left holding the can. So that's what I mean by systemic distortions, or leakages.

What are your issues with Television Audience Measurement (TAM)?

TAM measurement is nothing short of a scandal in this country. The data is not comprehensive enough – it only measures about one-third of the country... So, when I'm selling advertising on the basis of those ratings, they are reflective only of one-third of the TV universe. So two-thirds of the TV universe is being given free to the advertiser. As a result, advertising rates in this country are probably the cheapest in the world...

Really?

Yes, absolutely. On a Hindi news channel, for instance, you can buy advertising for as low as a few hundred rupees, primarily because the data does not reflect the reach of those channels... And independently, the law of the land, which should get all business practitioners to submit the details of their business, audit their books, their subscriber numbers... that's missing in the entire analog cable universe. So how do you know how much money people are making out of the content that you are delivering, which you bought at an exorbitant rate. So those are distortions and leakages.

But even the content providers are not exactly transparent, right?

Why would you say that?

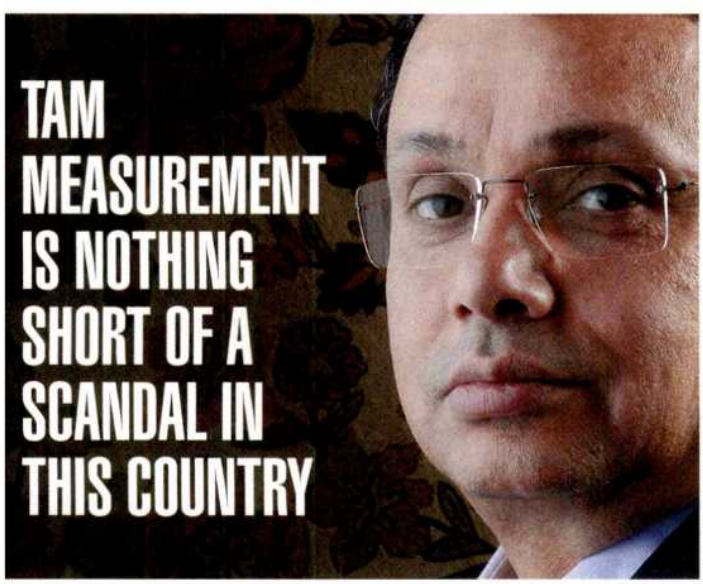
For instance, they are not listed. You don't know whether they are making money or losing money...

What you are raising is a very complicated issue. You're right, you know, I'm not sure, in the lighter way, what is

worse, whether they are listed or whether they are not listed. Because a lot of them who've listed, their investors have lost money big time... A whole set of people are in the industry for a variety of reasons. Every builder today has an aspiration – to own a news channel. Because it keeps the taxman and the enforcement guys and everybody else out... Most political parties and a large number of politicians, the more tainted, the more keen they are, on owning a piece of media. And they are the ones who do not want transparency – because they are all in it.

What was your motive to get into the IPL as an associate sponsor?

We get the visibility. The IPL is a very big platform... It gets a lot of viewers, for a long period of time. As the biggest entertainment broadcaster, we were keen that we take our marketing messages to that audience and, hence, when the sponsorship opportunity arose we bid for it.



SHEKHAR GHOSH

Sports broadcasting is highly unpredictable here, but not so much in other countries...

Sports throws surprises and people love those surprises. The problem here is the foundation is very narrow. Though we are supposedly a cricket-obsessed country, we show so little cricket... Also, we have not built the culture of native sport. That is something I am trying to correct. For instance, we worked to create a hockey league... We are now working to create leagues in some Indian sports, like Kabaddi... Unless you create a portfolio of sports and create enough volume of event in each of those sports, you cannot create a habit for it. That we think has been missing.

The other big thing that's missing is the language. In a country where less than three per cent people can understand and speak English reasonably well, almost all sports commentary and graphics are in English. We hope to change that... There is no reason for India to be a one-sport country, and within that sport, an international encounters country. There is a latent appetite for multiple sports, and it's waiting to be unlocked... The other thing we are saying is that people will pay for the content.

What about broadcasting content using the Internet?

Regardless of all the cynical expressions on poor Internet penetration and bandwidth challenge, this country is at an inflection point as far as Internet consumption is concerned. Online media consumption is very quickly going to blow in our faces and I don't think the content community as a whole is ready for that... We have just launched our site called starsports.com... we were stunned by the response that we got on that site.

When did you start thinking about cricket?

I am not a big believer of looking at a business through the lens of ownership of the channel. I intuitively looked from the audience's point of view. What does the audience consume?... Women like to consume drama, but for the male audience, the primary source of content consumption is movies and sports. And we were not a key player in either, so that is how we started thinking about it.

What percentage of your audience was male and female?

A disproportionate share came from the female audience.

Is it still the case?

It has changed significantly.

So thinking on sports started only after?

Sport was the offshoot of thinking about ways of getting a male audience. As things stood then, other movie, sports and news broadcaster were taking away large share of it. So we decided to become more relevant with them as well and accelerated the acquisition of movies... We bought the whole Viacom library... We realised that sports was something that drove big masses of the male audience.

Do you watch the Star Plus shows closely?

Yes! All the key shows are loaded to my iPad. I don't have much of a social life. I go home and sit with my wife and dog and watch my channels. I never watch any other channel. ◆

For a more detailed interview, go to
www.businesstoday.in/star-udayshankar

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Cracking the Code

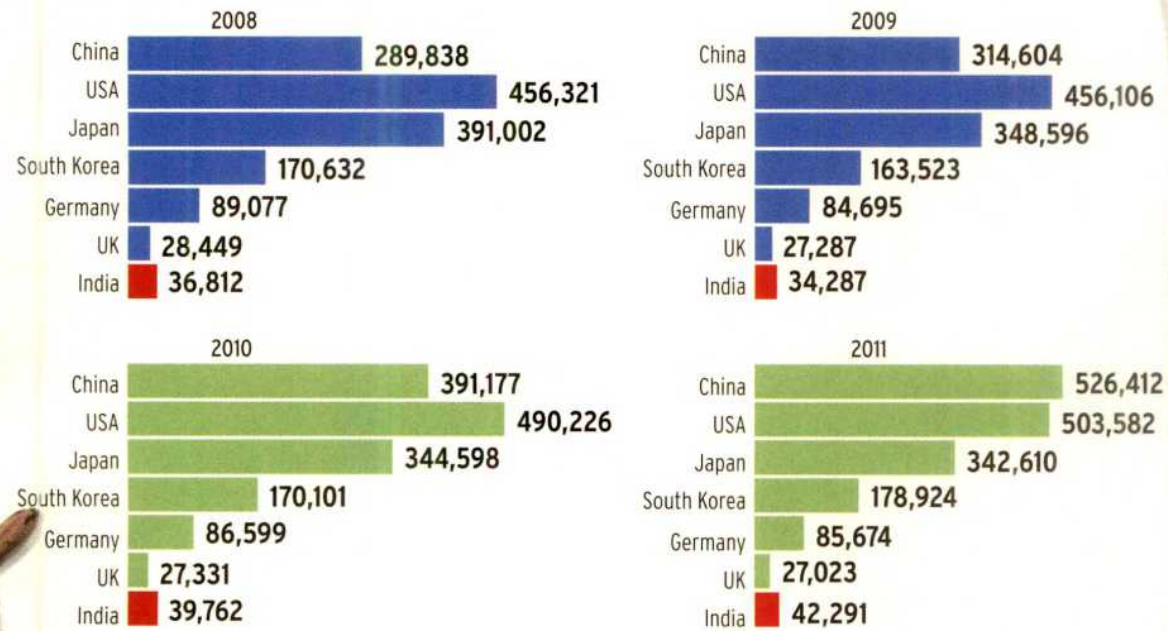
Curated By **N. Madhavan**
Waste materials art by **Santosh Kushwaha**

The benefits of innovation for Indian companies hardly need underlining. It will not only level the playing field in their competition with deep-pocketed multinational players in the domestic market, but also provide them an impetus to go global. For global players, innovation helps to expand their addressable market. Developing economies have become fertile ground for path-breaking innovations. But as the chart (See *Pushing the Envelope*) suggests, only a few companies in India have cracked the innovation code so far. India is well behind not only most developed nations in filing patents, but also China and South Korea.

This year, *Business Today*'s annual

SOBERING THOUGHT

Ideas from India are changing the world, but we could do with a few more.
Patents filed by select countries:



Source: World Intellectual Property Organisation

innovation special celebrates some of the successful innovations in India that have also resonated across the globe. Through these success stories we highlight the challenges Indian innovators face and the tenacity they have displayed. As innovation expert Vijay Govindarajan says in his interview (Page 84), the window of opportunity for companies in India closes in the next 10 years. It is time to act.

For our previous Innovation specials, go to
www.businesstoday.in/archives-july0713

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A Clear Solution

Hindustan Unilever's Pureit water filters are touching millions of lives worldwide.

By AJITA SHASHIDHAR

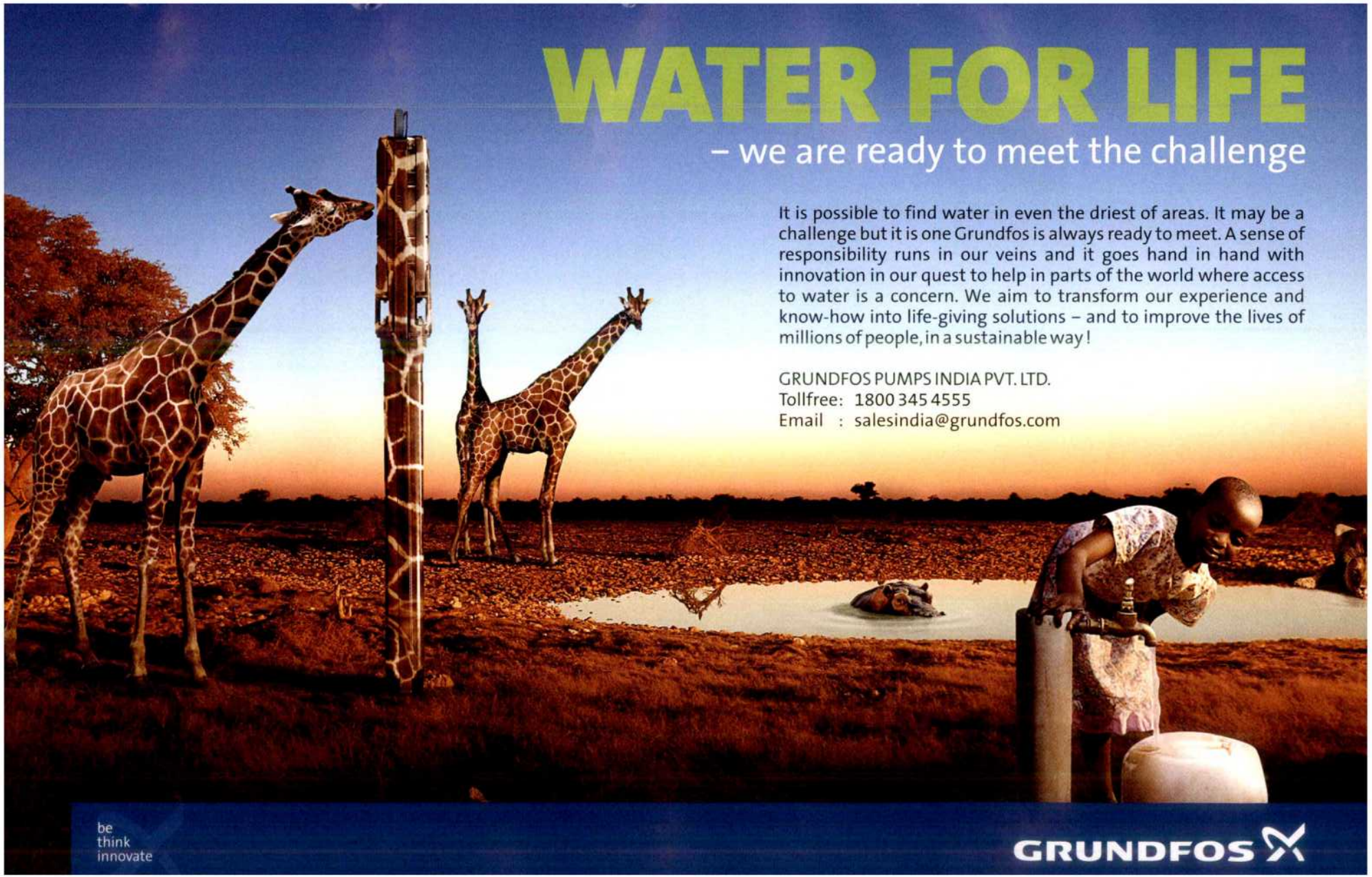
Annisa, a 35-year-old home-maker, lives in the suburbs of Jakarta, Indonesia's capital. She usually starts her day by hauling a 20-litre container to a nearby water kiosk where she waits in line for a couple of hours to fill water for her family to drink and for household chores. Twenty litres last just two days, but millions of Indonesians would rather haul water home like this than drink tap water, which is often polluted and tastes salty.

On the other side of the world, 30-year-old home-maker Marisol, who lives in a small Mexican town, has a similar problem. A cholera outbreak in the 199(caused by poor quality municipal water supply, d stroyed her trust of tap water. Marisol buys 20-lit containers of water at her local supermarket every tv days. Consumers like Annisa and Marisol mean bu ness for Pureit, a water purifier developed for the Indi market by the world's largest consumer goods co pany, Unilever, at its Bangalore research centre. T filter was test-marketed in Chennai in 2004, a gradually sold across India over the next four yea Today, it also sells in Bangladesh, Brazil, Indones Mexico, Nigeria and Sri Lanka.

When Pureit was launched, water purifiers such

Water, water, anywhere: Pureit does not require electricity to function

VIVAN MEHRA/www.indiatodayimages.com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Eureka Forbes's Aquaguard had been on the Indian market for over a decade. To be successful, Pureit had to be different. One major difference was price: Unilever priced the entry-level product, Pureit Classic, at ₹2,350 – less than half the entry-level prices of other purifiers. The second important difference was that, unlike other products, Pureit did not need electricity. "Unilever decided that water would be one of the key drivers for the future, way back in 2000," says Anupam Bokey, General Manager (Brand Development) for Pureit. "Providing safe drinking water was not only looked at as an area which would rake in revenues, but it also became part of the company's vision to give back to society."

Unilever's promise that Pureit could make even filthy water fit to drink seems to have been more than advertising hoopla. One of Pureit's earliest advertising campaigns featured a man collecting water from a dirty overhead tank and a pond, and rainwater in a bottle, and challenging a Pureit salesperson to purify it. The commercial showed the salesman putting the sceptic's doubts to rest by purifying the dirty water right before his eyes. "We have offered ₹1 crore in prize money to anyone who can prove that some other water purifier brand can purify water better than Pureit, and there are still no takers for that money," says Bokey proudly.

The biggest challenge when Pureit was launched was to win over consumers. "Though there were many water purifier brands in the market, penetration was low due to steep pricing," says Bokey. "Moreover, water safety was not at the top of people's minds. People preferred to boil water, and would do so only when their kids fell sick."

Another challenge was that while the lack of safe drinking water was a common problem in several countries, each country had its own peculiarities. For instance, Bokey says, unlike Indians, Indonesians did not boil tap water. However, he adds, they are more aware of the importance of clean drinking water. And Mexicans, he notes, have a deep mistrust of tap water. Consumers in many countries were uncomfortable with the idea of drinking purified tap water.

Unilever had to find a way to offer the best technology at a low price, says Bokey. Most water purifiers used

Empowering Women – and Men

In her village, Ahire, some 100 km from Mumbai, Shobha Thombare is popularly known as Shakti Amma. Thombare lost her husband in 2005, and had to raise their toddler on her own. Thanks to Project Shakti, Hindustan Unilever's rural direct-to-consumer retail distribution initiative, Thombare makes a profit of ₹2,500 a month, selling Lux soap, Wheel detergent, Fair & Lovely cream, and products such as SIM cards.

Thombare invested ₹20,000 with the assistance of a local self-help group that worked with HUL. She earns a 13 per cent commission on products sold directly to consumers, and three per cent on goods sold to retailers.

The project was designed for the Indian market. "In the 1990s, we could reach out to just 40 per cent of the population, as our traditional distribution system didn't work in the hinterland," says Kedar Lele, who heads Project Shakti. "Therefore, creating a self-sustaining model of micro-entrepreneurs in these areas made sense."

Project Shakti has helped thousands of women – and also men. Launched in 2010, the Shaktimaan initiative encourages men in the Shakti Ammas' families to distribute its products. With some 48,000 Shakti Ammas and 30,000 Shaktimaans, HUL reaches over three million households in 15 states, and has extended the project to Pakistan and Sri Lanka.

AJITA SHASHIDHAR

In business: Shobha Thombare (right) at work

For more on Project Shakti, log on to www.businesstoday.in/innovation-projectshakti

The Global Footprint

BANGLADESH, BRAZIL, INDIA, INDONESIA, MEXICO, NIGERIA, SRI LANKA

reverse osmosis technology, which requires electricity. Pureit puts water through four stage of filtration, in which sediments, dirt, parasites and residues are removed. The process requires no electricity, which poor people either lack or find expensive. "Pureit ensures that you get the level of safe drinking water that meets US Environmental Protection Agency norms from the first litre to the last," says Bokey. He adds that the product warns the consumer when the filter parts are due for replacement, and shuts off when it can no longer dispense clean water. Thus it ensures that consumers never drink unsafe water.

Pureit's affordability helped overcome consumer resistance. "In Indonesia, we told consumers that the cost of Pureit was 16 times less than a 20-litre container of water," says Bokey. "Similarly, in Mexico, the cost of a litre of packaged water is 60 times more than that of a litre purified by Pureit."

45 mn
The number of Pureit water filters that have been sold worldwide, including India

The company also invested heavily in advertising. In Mexico, a popular TV and radio artist has endorsed the brand, and advertisements say Pureit frees women from the burden of carrying 20-litre bottles of water. This presumably strikes a chord with consumers. One says: "I live on the third floor so I had to carry the heavy bottle or ask my husband to do it. I wanted an easier way to get safe water. When I saw Pureit, I thought it was perfect."

More than 45 million purifiers have been sold worldwide, including India. By the year-end, the brand will enter some emerging markets in Africa. Trust in Pureit seems to be growing – clearly.

NOKIA

News You Can Use

Nokia connects through an SMS-based information service.

By SUNNY SEN

Six years ago, Finnish mobile phone maker Nokia had a pretty broad brief for Jawahar Kanjilal: he had to launch some services targeted at emerging markets. Kanjilal did some research and zeroed in on an SMS-based information service called Nokia Life Tools (NLT), which would provide agricultural information, such as weather reports and crop prices, and educational services such as English language courses. He started small with a pilot project in Maharashtra: Nokia teamed up with the Maharashtra State Agricultural Marketing Board to provide commodity prices from nearly 300 *mandis* to thousands of state farmers. "Back then mobile services were entertainment-oriented, and life-improvement services were missing in 2008," says Kanjilal, now Vice President and Global Head of Nokia Life, Mobile Phone Services at Nokia.

The pilot was a big success. Today, Nokia Life has extended beyond agriculture to also provide information on health and education. It has more than 100 million users, half in India and the rest in four emerging markets – China, Indonesia, Nigeria and Kenya. It has joined hands with 20 mobile operators, has more than 100 content partners and its services are available in 20 languages across these countries. Kanjilal says he was clear about one thing: the company had to launch the pilot project for emerging markets in a country with geographic diversity and India was the obvious op-

VIVAN MEHRA/www.indiatodayimages.com

Updates and alerts: A farmer checks weather information on his mobile phone

Spreading Its Wings

Nokia Life has extended beyond agriculture to also provide information on health and education. It has more than 100 million users, half in India and the rest in four emerging markets – China, Indonesia, Nigeria and Kenya. It has joined hands with 20 mobile operators, has 100 content partners and its services are available in 20 languages across these countries. Jawahar Kanjilal, Vice President, Nokia Life, says he was clear about one thing: the company had to launch the pilot project for emerging markets in a country with geographic diversity and India was the obvious option

tion. "If we cracked it here (India), it would be doable (everywhere else)," he says.

So, how does the service work? NLT subscribers pay a monthly subscription, choose a language and the company delivers information to their mobile phones. The biggest challenge is collecting information. The company needs suitable partners such as universities, NGOs and government bodies to gather highly localised information. For information on its education projects which include English learning programmes, Nokia has tied up with mobile learning company Enable Mobile Technologies (EnableM), which, in turn, has partnered with leading organisations such as Pearson Education. The education project provides highly localised content by using area pin codes as a differentiator. "Kanjilal helps us with market inputs, and also aggregating a set of partners who are experts in their own space," says Amit Zaveri, CEO and Founder of EnableM.

Once agriculture and education were in place, Nokia turned to health care. Kanjilal realised many people in rural India do not visit a doctor until they are extremely sick. He then began providing health-related information on everything from general health topics to specifics such as maternal and child care. Now that he has set up NLT, the company's next step is to launch in many more countries. "There is a lot of headroom here," he says.

The success in India pushed Nokia Life to spread to other emerging markets. Today, almost half of its subscriber base is outside India, with 30 million users in China and 10 million users each in Nigeria and Indonesia. It has tied up with UNESCO in Nigeria to launch a service to help educate primary school teachers. In Jakarta, about 8,000 women use an NLT service called Usaha Wanita which helps women run small businesses. "A lot of wealth in these countries is in rural and underdeveloped cities," says Sanchit Vir Gogia, Chief Analyst and CEO of Greyhound Research, an IT research and advisory firm.

The project's global footprint doesn't stop here. Nokia and telecommunications services company Bharti Airtel have plans to go global with their partnership: Nokia announced in March it would take services such as Nokia Life across Africa. "We see a huge need of services like Nokia Life in Africa," says N. Rajaram, Chief Marketing Officer of Bharti Airtel. "It has been a good partnership in India and now we have taken that to Africa."

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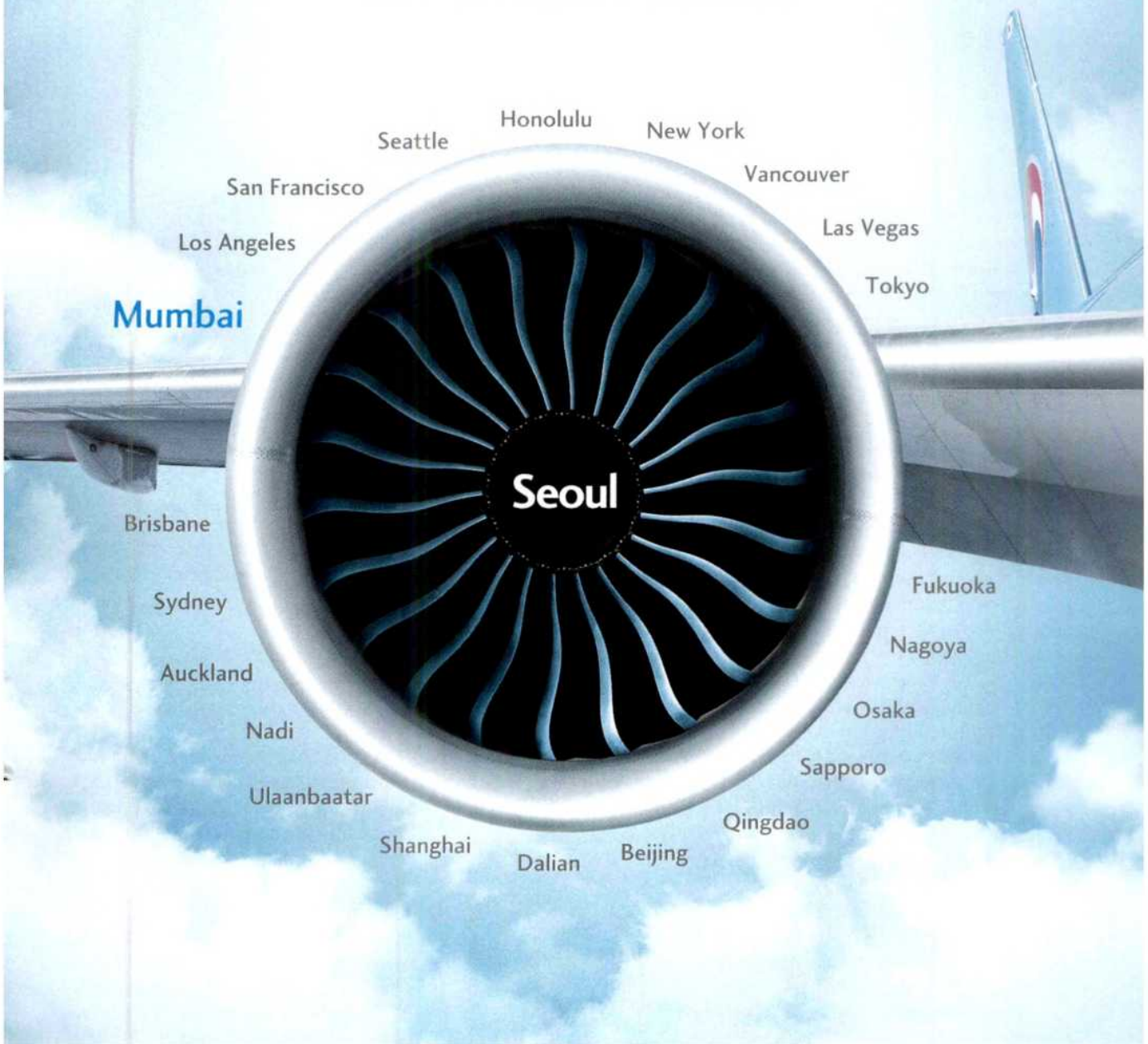

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AUROLAB

Eyeing Success

Aurolab has changed the face of eye care across the world with its affordable intraocular lens.

By N. MADHAVAN

It is often described as the most dangerous country to live in. Its cities have the dubious distinction of being dubbed the drug and kidnapping capitals of the world. But Colombia, home to a host of drug cartels and narco-terrorists, will soon be known for a less notorious reason. In three years, its capital, Bogota, will be a cataract-free zone.

Across the ocean in Sudan, the Al-Basar International Foundation – a non-governmental organisation working to control blindness – performs close to 60,000 free cataract surgeries a year. It accounts for 80 per cent of such surgeries in the country and gives vision to people who, until recently, had no hope of good eye care.

Colombia and Sudan may be miles away from India, but their eye-care stories have an Indian connection. They would not have been possible without an intraocular lens supplied by India's Aurolab, a producer of affordable cataract surgery items such as lenses, needles, sutures, blades and drugs. Aurolab is part of the Madurai-based Aravind Eye Hospital. "We support Aravind Eye Hospital's vision of ridding the world of needless blindness by manufacturing products that make this mission affordable," says P. Balakrishnan, Managing Director, Aurolab.

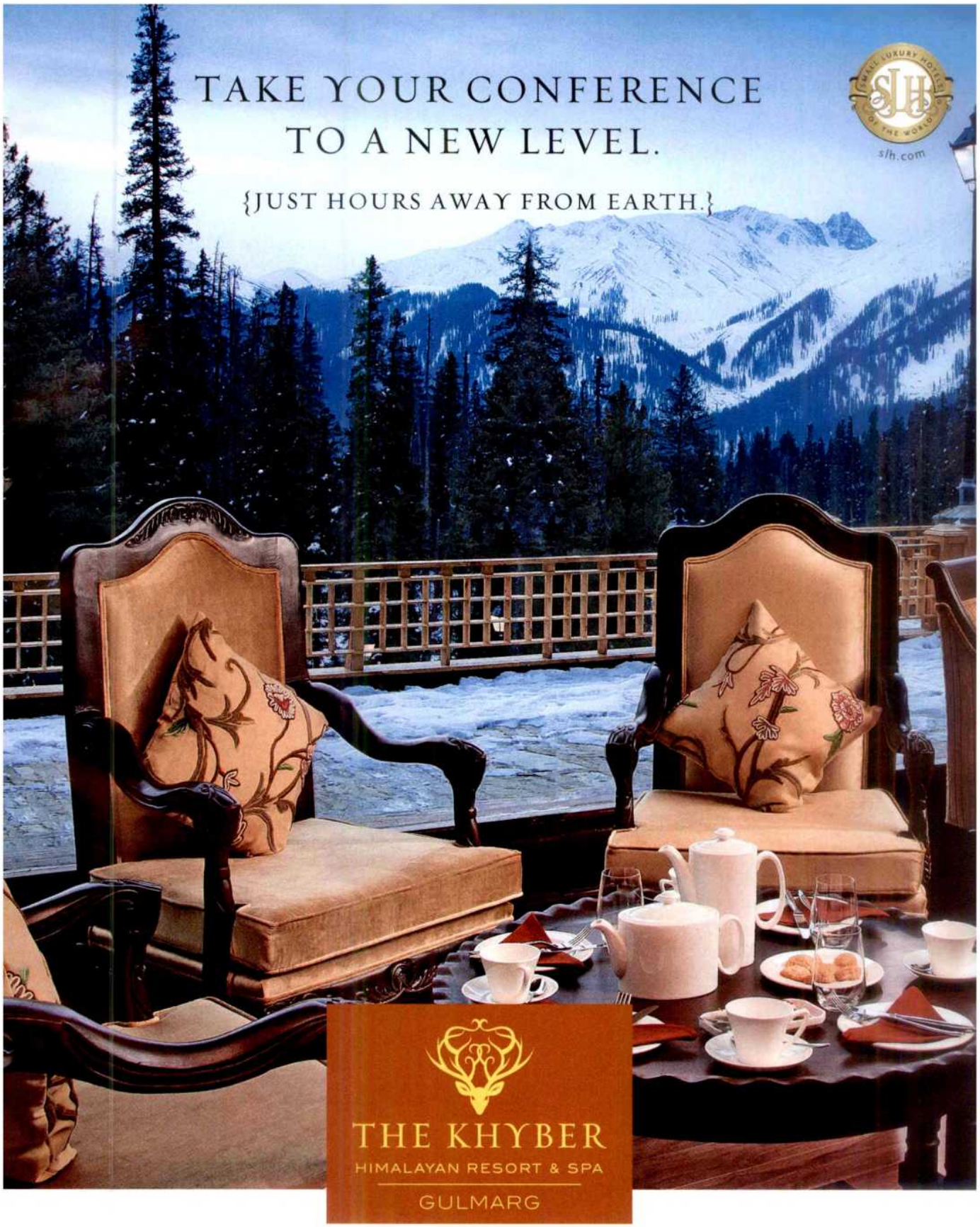
Aurolab has dramatically altered the face of eye care in India since it brought the price of the intraocular lens down to a tenth of international prices in the late 1990s. Since then, it has grown to market its products in more than 130 countries, with exports accounting for half its ₹80 crore revenues in 2012/13. About 60 per cent of its total sales go to non-profit organisations. "Governments in Colombia, Argentina, Sudan, Nepal and many more countries use their health care budgets more effectively by opting for low cost-high quality Aurolab products instead of those supplied by multinational companies and thus serve a larger mass of needy people," says the head of a global NGO which fights blindness.

BALA

↑ **Focused:** Aurolab brought the cost of the lens down to a tenth of the international price

₹80
Current price of the rigid intraocular lens implanted in cataract surgeries

Before 1980, cataract surgery involved removing the natural lens and giving patients thick spectacles. But by the mid-1980s, the intraocular lens – where an artificial lens replaces the original eye lens – became popular as it restored near normal vision. But it was expensive: multinational



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No Letting Up

The drop in prices has led to a massive increase in cataract surgeries in India. Until the affordable intraocular lens hit the market, doctors performed only one million such surgeries a year. Today, the number is seven million. Aurolab's tryst with innovation continued. As technology evolved, the rigid intraocular lens gave way to a foldable lens. The company first tried to buy the technology for a hydrophillic foldable lens which could be stored in water, but found it too expensive. It identified the material used to make the lens and developed one itself in August 2001. However, it faced a greater challenge when it came to making a hydrophobic foldable lens. After a three-year effort, Aurolab developed a material which was close to the original without infringing on the patent.

companies charged more than ₹3,000 a piece. The high prices bothered Dr Govindappa Venkataswamy, founder of Aravind Eye Hospital, which performed over 60 per cent of its cataract surgeries free but could only offer the intraocular lens to paying patients. "This went against the core philosophy of the group – same quality eye care irrespective of the patient's social standing. He felt that the poor, for all the manual labour they did, needed intraocular lens more than others," says R.D. Sriram, Director-Operations, Aurolab.

In 1990, Venkataswamy began exploring the possibility of buying the know-how for manufacturing the intraocular lens. Many warned him it was an adventurous move as health care providers typically do not enter manufacturing. The technology was not readily available but he was determined. Venkataswamy found a company that manufactured the equipment needed to produce the lens and convinced it to share the technology. Production began in 1992 for a lens priced at ₹270 a piece. "What we achieved then was just a pricing innovation. We used the same material, same machine, same process and same quality parameters. We just capped the price at ₹270, which was a tenth of the international price and we still made some money," says Balakrishnan. Today, the lens is priced at ₹80.

The drop in prices has led to a big leap in cataract surgeries in India. Until the affordable intraocular lens hit the market, doctors performed only one million cataract surgeries a year. Today, the number is seven million. Aurolab's tryst with innovation continued. As technology evolved, the rigid intraocular lens gave way to a foldable lens. The company first tried to buy the technology for a hydrophillic foldable lens which could be stored in water, but found it too expensive. It identified the material used for the lens and developed one itself in 2001. However, it faced a greater challenge with hydrophobic foldable lens which need not be stored in water and is flexible in dry conditions. This lens was made with a special material which was patented. After a three-year effort, Aurolab developed a material which was close to the original without infringing on the patent.

Today, it is one of a few companies in the world with this technology and is in the process of applying for a patent. "We did face challenges, especially when it came to the availability of technology. We overcame it and today we can confidently say that if there is one field where India has beat China when it comes to manufacturing, it is in intraocular lens production," says N. Vishnu Prasad, who handles international marketing for Aurolab.

Not surprisingly, experts say China does not allow the Indian lens into the country so easily. "It takes years to get approvals," says Prasad. Industry experts say the trade barriers have affected China's eye-care record. China performs just one lakh cataract surgeries a year.

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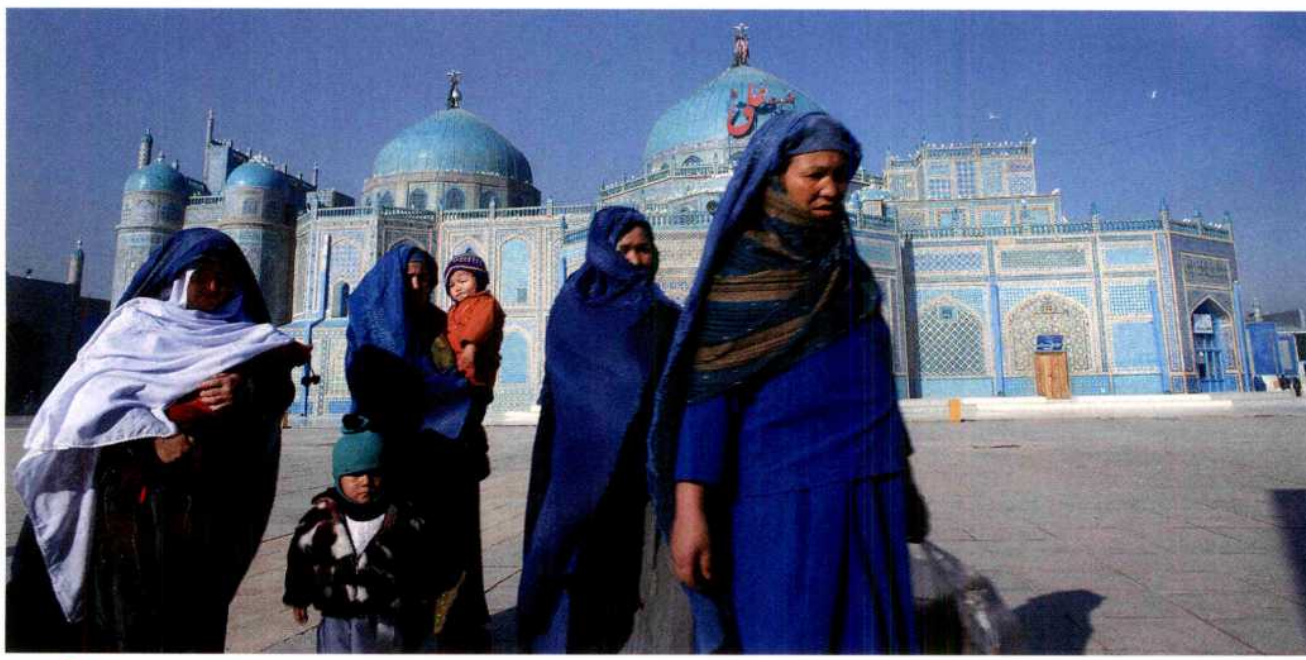
crayons

HAND IN HAND

Lifting the Veil

Hand in Hand is overcoming ideological hurdles to create entrepreneurs in war-torn Afghanistan.

By N. MADHAVAN



Stronger together: Hand in Hand beneficiaries near the Blue Mosque in Mazar-i-Sharif, Afghanistan

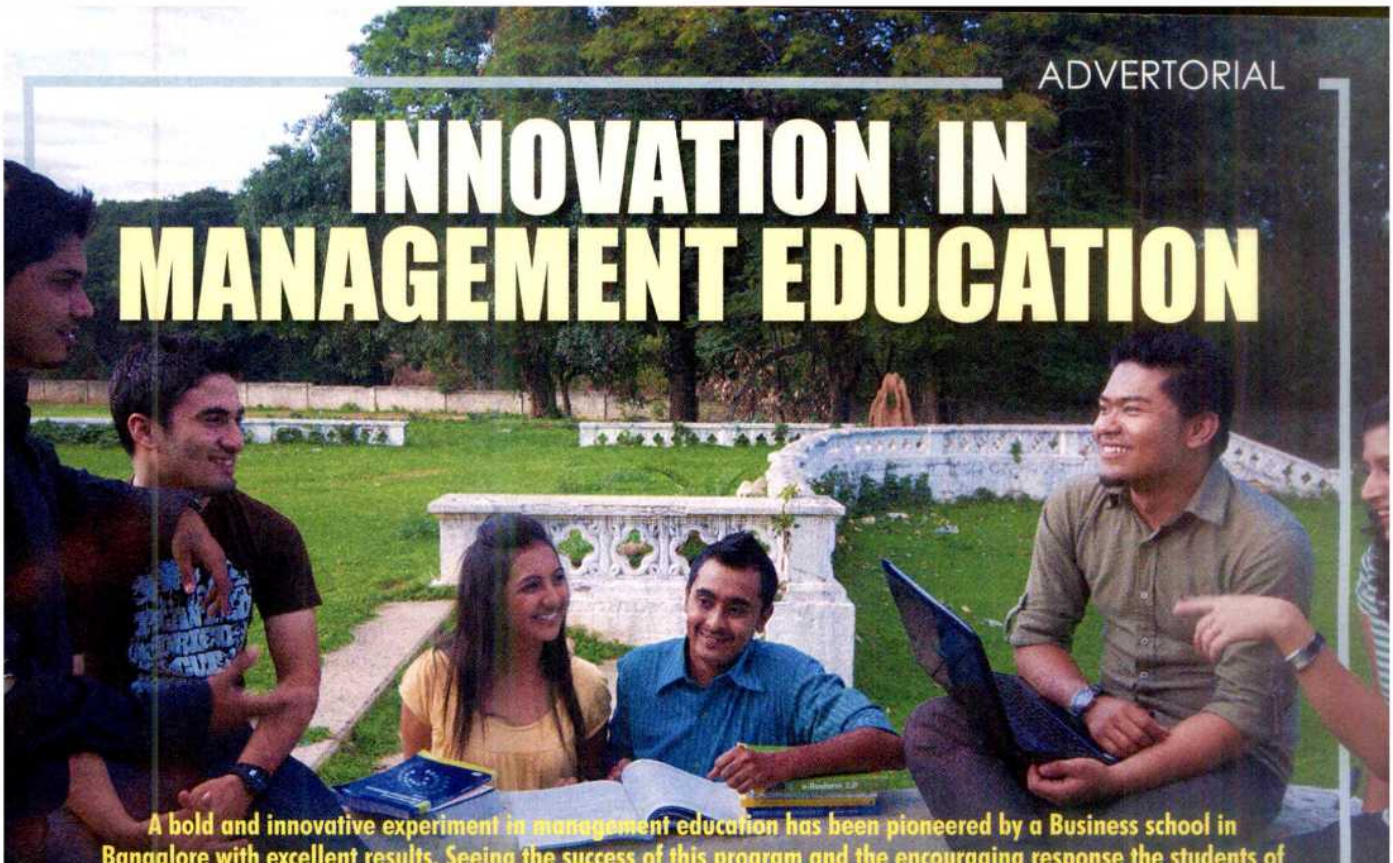
The 64 mullahs who congregate every Wednesday at the Blue Mosque in Mazar-i-Sharif, northern Afghanistan, had probably never seen a more persistent soul in their lives. This person had been hounding them for an audience for two months. It was mid-2007 – around the time the Taliban seemed to be gaining ground. That year alone, the number of suicide attacks was over 140 – more than the previous five years' attacks put together. But the deteriorating safety situation was not why the mullahs hesitated to grant an audience. The reasons were that the person seeking it was a non-Muslim and a woman. Finally she succeeded in meeting them – the first victory for Usha Somasundaram of Hand in Hand, an NGO based in Tamil Nadu which works to alleviate poverty.

Somasundaram's efforts to kick-start Hand in Hand's operations in the relatively peaceful Mazar-i-Sharif, Afghanistan's fourth largest city, met with resistance. "All I was hearing is that women can't come out of the house," she says. "They cannot form groups, and levying interest is un-Islamic."

However, a survey of 200 households in Mazar-i-Sharif revealed that people were enthusiastic about what Hand in Hand proposed to do. Somasundaram reckoned that the blessings of local religious leaders would make things much easier, so she wanted to meet

ADVERTORIAL

INNOVATION IN MANAGEMENT EDUCATION



A bold and innovative experiment in management education has been pioneered by a Business school in Bangalore with excellent results. Seeing the success of this program and the encouraging response the students of this program received from the Industry, universities in Karnataka and Tamil Nadu, who are otherwise conservative and bureaucratic, have come forward to tie up with this B School. This unique form of teaching management invented by this B School has captured the imagination of students in India and abroad.

Students of this B School, Monday to Friday, work in a corporate, they are on the rolls of a company in a full time job earning a regular salary. Saturdays and Sundays, they come back to the campus to study management subjects as per the university's curriculum. Students' go through two days of classroom studying reinforced by five days of industry exposure. At the end of two years the student has a full time UGC recognized MBA degree, a permanent job with a decent salary and two years of valuable work experience. The student is looked at by the corporate as some one who is industry-ready and not just a class room- MBA. Management education in recent times has lost its glamour because most management institutes teach management like any other regular subject. Rote-mechanical and repetitive learning, experts say, is not very useful because there is a lot of difference between learning management in the classroom and learning management at the work place.

The main drawback classroom-MBAs' face is lack of industry exposure, resulting in corporates' having to spend a lot of time, effort and money training and preparing them . Employers world over prefer candidates who are industry ready, who can take up challenges and perform from day one.

The students of GEMS B SCHOOL are mandatorily expected to work and study and earn and learn. The moment a student joins this college, he/she is assessed, trained and employed. They call it the Picked, Polished and Placed model. GEMS B SCHOOL takes the responsibility of placing the student. This bold new experiment in management education by GEMS B SCHOOL has earned it laurels resulting in academic tie ups with leading Indian and International Universities, SAP Labs, The Institute of Cost Accountants of India etc. and placement tie ups with companies like ABB, ACCENTURE, DELL, IBM, HP, CONVERGYS, Goldman Sachs, J P Morgan, L&T, NORTHERN TRUST, E&Y, INFOSYS, WIPRO etc.

GEMS B SCHOOL is a bit choosy in admitting students into this course. Students aspiring to join this course are required to clear an entrance test the link to which is www.gemsadmissiontest.com. Students have to score 60 marks in 60 minutes which is a bit of a challenge.

GEMS B SCHOOL does not practice just innovation in learning methodology, one can see innovation also in the courses they offer. Courses like MBA with SAP, MBA with CMA, MBA in Health Care Management and Hospital Administration, MBA in Educational leadership and management, MBA in Event management, MBA in retail management etc.

Faculty members who teach in this college are also unique because none of them are with less than 20 years of work experience; industry experience is a pre-requisite to teach in this institution. A brief interaction with students of GEMS B SCHOOL revealed that they are good in business analysis, problem solving, decision making, negotiating and conflict management. They said they were able to acquire these vital business skills thanks to their industry exposure and intensive classroom training.

While no doubt the placements success of this institution is because of its unique learning model, one has to acknowledge the fact that part of the credit for the success of this institution should go to its dynamic placement team which consists of experienced HR professionals, all from the industry, with a minimum of 10 years of Industry experience .

Even their campus is unique because it is located in the Bangalore Palace in the heart of Bangalore city, in a picturesque environment, in heritage buildings, surrounded by thousands of trees with an enviable ambience which no other institution in the country can dream of. The admission process in this institute is also different yet professional. Once the student clears the admission test, he/she is put through a psychometric analysis which reveals the student's career preference. Following this the student goes through an intense round of counseling by career experts who guide the student in choosing his/her area of specialization. Based on the specialization chosen by the student he/she is placed.

Those students whose communication skills and confidence levels are a bit low are put through a crash course in communication skills, aptitude test skills, interview handling skills, group discussion skills and other corporate skills so that the students can successfully clear interviews. While most students are able to clear the job interviews in the first attempt itself, few who are unable to, are further trained and provided with repeated interview opportunities till they succeed. It is absolutely mandatory for a student studying in GEMS B SCHOOL to work and study.

For more information log on to : ***www.gemsbschool.com***

Creating Entrepreneurs

Hand in Hand's success in Afghanistan is due in part to its India business model. Conceived and promoted by Percy Barnevik, former chairman of power and automation giant ABB, at the beginning of this century, Hand in Hand aimed to reduce poverty by creating entrepreneurs. It does not just give money to people but also trains them to do business. In nine years Hand in Hand has created 700,000 entrepreneurs through 59,000 self-help groups in eight Indian states.

The Global Footprint

IN 15 COUNTRIES IN AFRICA, ASIA AND SOUTH AMERICA

and explain Hand in Hand's work to them. She even hired a cleric to understand the Koran's teachings, so that she could make a strong case that her work was not un-Islamic. It paid off: she managed to persuade the mullahs. Later, on a popular TV chat show, a viewer asked one of the clerics whether she could work with Hand in Hand, and he encouraged her to do so. The impact of the programme was immediate, as women's participation increased.

Hand in Hand has created over 13,000 entrepreneurs in Afghanistan, who are involved in weaving, embroidery and agriculture. It has tweaked its model and replaced interest with profit-sharing, which is in line with Islamic banking. It has crossed hurdles peculiar to Afghanistan. For instance, Afghan women, used to grants, initially had trouble understanding why they should return the loan. Their poor education also meant that they needed extensive training.

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1.3 mn
The number of jobs Hand in Hand has helped create in India in the last nine years

In nine years, Hand in Hand has created 700,000 entrepreneurs – that is 900,000 enterprises and 1.3 million jobs – through 59,000 self-help groups in eight Indian states. "Close to 850,000 women who are members of the self help-groups have saved ₹260 crore, and the total credit from banks and other institutions obtained by the self-help groups is ₹980 crore," says CEO N. Jayaseelan. Hand in Hand itself has 3,300 employees and 52,000 volunteers.

The NGO has also been active in South America (Brazil, Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua) and Africa (Kenya, Lesotho, South Africa, Swaziland and Zimbabwe). It recently ventured into Cambodia and Myanmar. "In each country, we have faced different challenges, and mostly they are cultural," says Sankar. "Brazil is a credit card-driven society and people borrow at interest rates higher than 48 per cent. Inculcating the savings habit in them was a challenge. South Africa has a subsidy culture and poor people there are least entrepreneurial."

Somasundaram is back in India after handing over operations to locals. She spent almost three years in Afghanistan, living in a 10 x 10 room with no TV and venturing out only when security conditions permitted. She has since left Hand in Hand. The reward for the organisation has been tremendous: the Afghan government adopted Hand in Hand's model when it launched the Afghanistan Rural Enterprise Development Programme in 2010.

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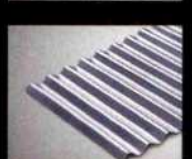

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Making the Grade

DHL understood what students wanted – and made a business out of it.

By SUPROTIP GHOSH

Studying abroad is a dream that comes true for thousands of Indians each year. But first, there is the hassle of applications. While part of an application is usually submitted online, there is no getting around sending paper documents. And yet, until 2003, there was no affordable, fast and reliable way to do this.

Some 80,000 Indian students went to the United States in 2002, according to logistics company DHL Express. They used the postal service or local courier companies of varying dependability. "When we saw the need for a service to cater to the needs of university students, we launched University Express," says R.S. Subramanian, DHL's country manager for India.

The service, developed for the Indian market, lets students send applications for as little as ₹890 apiece. This is not business as usual for DHL, a Fortune 50 company. Other than the 300-gram Express Envelope, most of its products are designed for large shipments. And few students can afford the Express Envelope, which costs nearly ₹4,800 for next-day delivery to a destination in the mid-western US.

"It is tough for a student to afford DHL in a country like India," says Anil Gautam, head of sales in the business unit that runs University Express and DHL Express Easy Student (the two services are being integrated worldwide) in India. DHL's relative reliability and provision for tracking made the complicated application process easier. It also made DHL's logistics expertise affordable for students. New packaging – a rigid, waterproof envelope – was designed. To take on the unorganised competition, DHL had to deliver within the week at worst, and do it consistently, says Gautam.

Affordable Logistics

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Initially, DHL sold coupons through various outlets. The coupons could be used at DHL pick-up points to send packages to universities in different countries. But students sometimes lost coupons, which could then be misused. Many studied in a city other than their home town, so the coupons had to be recognised across the country. DHL then launched a prepaid card, which could be topped up, and used to buy Easy Student services at any DHL outlet. To curb misuse, swiping the card would send a code via SMS to a registered mobile number, which would be used to authorise the transaction. The numbers suggest the innovation has worked in India. This year, says Gautam, growth in the segment is in the high twenties, according to initial estimates.

Given that China sends even more students abroad than India, it made sense for DHL to offer this innovation there. According to 2013 data from the US-based Council of Graduate Schools (CGS), China accounts for about 29 per cent of international graduate students in the US, while India accounts for one-fifth. If anything, the need in China is greater. In 2009, while an Indian post office served 21 sq km and 7,175 people on average, a Chinese one covered 177 sq km and 25,000 people. Chinese courier companies, too, were not always reliable. The way Chinese students sent applications was similar to India, says Hong Kong-based Yung C. Ooi, who heads DHL Express's marketing communications in the Asia-Pacific region. "University Express was a good example of our colleagues in India being close to the market," he says. He adds that the student service, launched in China in 2006, is doing well.

Besides China and India, DHL caters to students in Malaysia, Pakistan, Sri Lanka, South Korea, Taiwan and Thailand. It sees students as a growing market, and seeks to catch customers young. Applications from China fell slightly last year, but are still substantial –194,029 students went to the US in 2012. Applications from India are up 20 per cent from last year. The international cargo is likely to grow, too, at 20 per cent a year over the next five years. So it looks as though DHL, like the students it serves, has plenty of potential for growth.

The Global Footprint

CHINA, INDIA, MALAYSIA, PAKISTAN, SOUTH KOREA, SRI LANKA, TAIWAN AND THAILAND

FINO

At your service: Bank of Kathmandu uses FINO devices to reach out to its customers in villages

Doorstep Banking

Financial services provider FINO takes banking to the poor.

By SANJIV SHANKARAN

With its narrow streets and haphazardly constructed buildings, Sant Nagar is a typical village on the northern fringe of New Delhi. Tucked away in a nondescript building in a corner of Sant Nagar is Navlok Welfare Society where Rekha and about a dozen women wait patiently to collect a monthly cash subsidy of ₹600 paid by the Delhi government. The subsidy is a part of a scheme named Delhi Annashree Yojna, which transfers money into the bank account of the oldest female member of two lakh poor families.

When it is Rekha's turn to collect her money, an

Money Matters

FINO's innovative applications to take financial services to the poor succeeded because of the rapid increase in the number of mobile telephones and fall in the cost electronic hardware such as Point of Transaction (POT) machines. The numbers are telling. According to RBI data, bank accounts created by so-called banking correspondents using information technology increased over five-fold in the last three years to 67.7 million accounts. FINO is one of the 33 organisations listed in advocacy group Microfinance India's directory of business correspondents. According to FINO's spokesperson, it had enrolled 40 million people for savings accounts by the end of 2012/13, giving it a market share of about 60 per cent brought into the banking net by business correspondents. FINO's model of creating software applications to run its business is uncommon among business correspondents.

agent from financial services provider Financial Inclusion Network & Operations Ltd (FINO) asks her to place her thumb on a biometric identifier on a hand-held machine. The machine, known as a Point of Transaction or POT, is link between banks and millions of households on the margins of the financial system. It turns the traditional concept of banking on its head as banks or their agents take financial services to people who otherwise cannot visit a bank or afford any other way to bank.

Welcome to the world of doorstep banking for the poor. The POT is just standard off-the-shelf hardware, but the software developed by FINO to run the device is highly innovative. It connects customers such as Rekha to their banks merely by punching in their Aadhar identification numbers into the GPRS-enabled machine. The POT connects to FINO's server which, in turn, communicates with the bank's server. Customers such as Rekha get their money and their transaction details are recorded on a real-time basis.

ICICI Bank set up FINO in 2006 to fill a gap in the banking software market. It decided to create its own software solutions that run on standard hardware to bring millions of poor Indians into the banking net. "It is disheartening to note that India, despite being the software service provider to the world, is unable to develop reliable software solutions and back office services for supporting our own financial inclusion activities," says Reserve Bank of India Deputy Governor K.C. Chakrabarty.

FINO's innovative applications succeeded because of the rapid increase in the number of mobile telephones and fall in the cost of electronic hardware such as POT machines. The numbers are telling. According to RBI data, bank accounts created by so-called banking correspondents using information technology have increased over five-fold in the last three years to 67.7 million accounts. Rajeev Arora, Director-Technology & Central Operations at FINO, says FINO's decision to create its own applications has not only led to cost savings, but also enhanced its competitiveness.

FINO is one of 33 organisations listed in advocacy group Microfinance India's directory of business correspondents, or agents contracted by banks to take doorstep banking to the doorstep people who cannot access the banking system. According to FINO's spokesperson, it had enrolled 40 million people for savings accounts by the end of 2012/13, giving it a market share of about 60 per cent. According to the RBI, 58.7 per cent of households in India use banks.

FINO's model of creating software applications to run its business is uncommon among business correspondents. According to one of its competitors, Anirban Roy, Managing Director of SEED Financial Services, most companies rely on software provided by banks who, in turn, outsource the work to stand-alone technology companies.

FINO's financial services technology isn't limited to India. For the past three years, it has also been helping people in inaccessible places in Nepal bank for the first time. According to FINO's Arora, the company provides a full package of services when it sells its product in Nepal where its clients are Bank of Kathmandu and Everest

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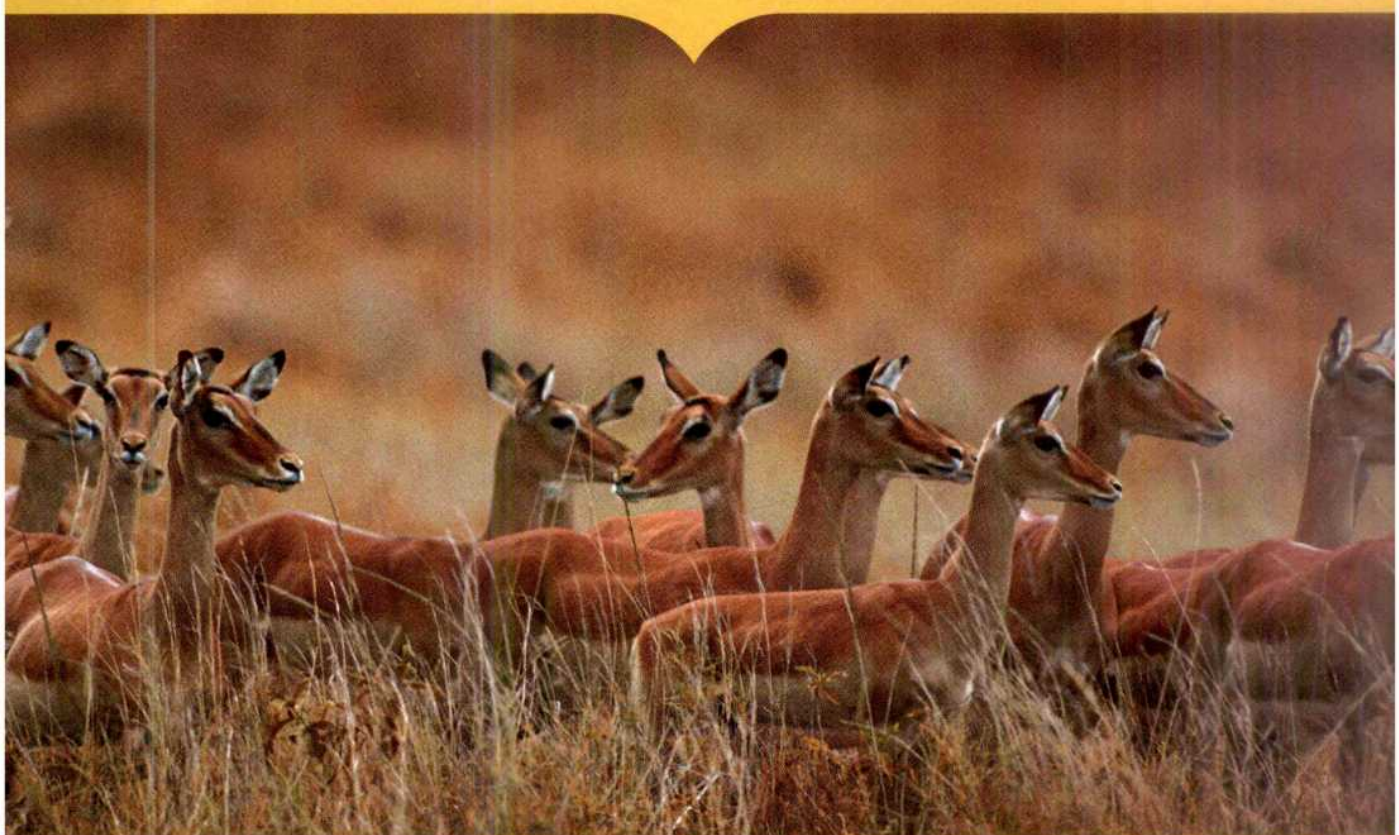

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The Global Footprint

BANGLADESH, INDIA, NEPAL, NIGERIA AND TANZANIA

Bank Ltd. FINO's servers in India store all their transaction data while the company uses its technology to monitor the field activity of its clients' agents in Nepal, says Arora.

Pravin Chhetri, CEO of Bank of Kathmandu, told Business Today over the telephone his bank deployed FINO technology about six months ago. Since then, he has used FINO's package to open 200 accounts, where people transact about two to three times a month. The number may seem small, but is significant in Nepal where only 10 to 11 per cent of the population banks compared with 40 per cent of a much larger adult population in India. But it is a long haul. "We have to wait for at least five years," says Chhetri. "Until then, it is a cost for us."

67.7 mn
The no. of bank accounts in India created by banking correspondents in last three years

Apart from Nepal, FINO is also exploring opportunities with local partners in Bangladesh, Tanzania and Nigeria. However, technology is not enough to prise open markets in banking. "The key driving factor is regulation," says Arora. For instance, regulators in Africa want data to be maintained in the host country and not in FINO's India-based servers. Therefore, contracts in Africa will need FINO to station people there.

But the real significance is that an innovation developed in India has become a vehicle of choice for another country's attempt at financial inclusion.

DHAMA INNOVATIONS

MODEL: SHIVANI, SARA MODEL MANAGEMENT

Healing Touch: A model displays a Dhama Innovations's wrap, which works as a pain reliever

Blow Hot, Blow Cold

Dhama Innovations's healing braces and wraps are a hit in the US. By E. KUMAR SHARMA

Kranthi Kiran Vistakula's early days at the Massachusetts Institute of Technology, Cambridge, US, were not comfortable. The intense winter cold bothered him no end. But Vistakula, universally referred to by his first name – Kranthi, soon found a solution – he invented a technology to provide both heating and cooling on demand. He patented the technology, and later – back home in Hyderabad in end-2007 – he improved on the product, realising it could have applications in health care as a pain reliever. He has since produced a range of braces and wraps, all of them with the capacity to blow both hot and cold.

For a longer version of the story, log on to www.businesstoday.in/innovation-dhama

The World of Alternatives to the Bank Fixed Deposit

Bank fixed deposits for long have been the safe haven for those looking for guaranteed returns on their savings and investments. For decades these instruments have provided the risk averse investor an option to safeguard their savings and yet gain from the fixed return earned from these instruments.

The draw to such instruments: safety of the deposit and the guaranteed returns they offer. The bank fixed deposit offers account holders a higher interest rate compared to the savings bank account and varies depending on the tenure of the deposit which could be from 15 days to 10 years and also have different compounding such as quarterly, half-yearly or annual.

However, the ubiquitous fixed deposit is not the only financial instrument offering such a guarantee, there are many more which do that. Corporate fixed deposits, fixed income bonds, non convertible debentures (NCD), debt mutual funds, life insurance and the National Pension System (NPS) are all alternates that one could consider to the bank fixed deposit.

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Corporate Deposit: Similar to bank deposits, the company fixed deposit is a deposit with financial institution and non-banking finance companies (NBFC) for a fixed rate of return over a fixed tenure. The rate of interest depends on the maturity tenure and these deposits are governed by Section 58A of the Companies Act.

Fixed Income Bonds: These are issued by the Government, public sector undertakings and private corporations for a wide range of tenors up to 20 years, with some corporates issuing even perpetual bonds. Unlike government bonds, corporate bonds generally have a higher risk, which the bond holders are compensated by a higher yield than government bonds.

Non Convertible Debentures (NCD): NCDs are instruments for raising loan by a company. The debt is acknowledged with an obligation to repay the loan sum along with interest as specified and are subject to provisions of the Companies Act, 1956. Debentures form a part of the company's capital structure but not a part of the share capital and cannot be converted as equity.

Debt Mutual Funds: There are several types of debt mutual funds such as bond funds, liquid funds, gilt funds and others which invest in various securities, depending on their investment strategy. These funds mainly invest in a mix of debt or fixed income securities such as Treasury Bills, Bank Certificates of Deposits, Commercial Papers, Government Securities, Corporate Bonds, Money Market Instruments and other debt securities of different time horizons. Generally, debt securities have a fixed maturity date and pay a fixed rate of interest. Returns from these funds comprise of interest income, capital appreciation or depreciation in the value of the security due to changes in market dynamics and can be selected depending on the investment horizon and one's ability to bear risk.

Life Insurance: It is basically a risk management tool meant to offer financial protection to one's dependents in the unfortunate event of death. The traditional life insurance policies have a savings and investment element which provides fixed return on the policy and is a good alternate to the fixed deposit, and comes with tax benefits on the premiums paid under Section 80C of the Income Tax Act.

NPS: This government of India initiative is to extend pension benefits to all Indian citizens. The NPS is by far the least complicated, simplest and the lowest cost pension system. While investments in the NPS are linked to the markets, it is a safe retirement savings option, especially with the kind of invest option it provides.

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"These products can go from zero degrees Centigrade to 40 degrees in a matter of seconds," he says. "They are easy to use and have no moving parts." Today his company Dhama Innovations, begun in January 2008 and named after his mother Dhamayanthi – has orders from the US to supply ₹250 crore worth of Climaware products – as his creations are called – over the next five years.

His chief distributor in the US is the Florida-based Ed Marti, who has been in the medical devices business for over two decades. "My brother came across the product at a Las Vegas show where it won an award," says Marti. "I then contacted Kranthi. I ordered a knee brace to check out the product myself. I saw tremendous potential in this innovative technology." Dhama's extended range of products includes the highly popular carpal tunnel wrap – for painful wrists – and braces which can also provide electrical muscle stimulation or electrical nerve stimulation. "There is no mess, no need for ice buckets, no need to stay plugged in to an electrical source or sit at one place," says Marti. "The market potential is enormous."

The Global Footprint

INDIA AND THE UNITED STATES

Dhama Innovations' products employ the thermoelectric or Peltier effect – named after French physicist Jean Charles Athanese Peltier – which produces both heating and cooling through the passage of electricity. "Back in India, I approached the government for funding under the Technopreneur Promotion Programme," says Kranthi. Dhama Innovations has received around ₹3 crore over the last five years under the programme. But ironically, Dhama Innovations products have yet to make an impact in the country of their origin. "For the first two years we focused on applications for the Indian military, but soon realised for a start-up, it was a difficult market to crack," he adds. Rebuffed, he turned to the US market and struck gold.

However, the company has now tied up with Woodland stores to sell in India.

FORUS HEALTH

NILOTPAL BARUAH

Taking Care: Founders of Forus Health, K. Chandrasekhar and Shyam Vasudev Rao, with their product, 3nethra

Sharp Focus

Forus Health has developed a slick retinal imaging device.

By GOUTAM DAS

Dr Nathan G. Congdon, an American professor at China's Zhongshan Ophthalmic Center, has mapped an alarming trend. Only one per cent of the Chinese population had diabetes in 1980; today, over 10 per cent is affected. The dramatic increase in the incidence of diabetes in the world's most populous country has created its own set of problems for ophthalmologists – diabetics need to get their eyes checked every year and doctors in rural China are not equipped to either diagnose or treat such patients.

Enter Forus Health, an Indian medical equipment start-up which has made eye imaging easy, portable and cheap. The Bangalore-based company has developed a slick retinal imaging device called 3nethra which works just as effectively as a traditional fundus camera – but at a fraction of the cost. Unlike fundus imaging,

For a longer version of the story, log on to www.businesstoday.in/innovation-forus

the Forus device does not need eye drops to dilate the eye because it uses infrared light the human eye cannot see. The 14-kg machine can auto-focus and remove the glare on its own. Images taken from the Forus device in rural hospitals can be uploaded on servers maintained by the company and then accessed by experts sitting at the Zhongshan Ophthalmic Centre for further investigation.

The three-in-one device does more than just retinal imaging: its slit lamp images the cornea, while the refractive meter measures any loss in vision. "The appeal of the Forus device is that its price is about a third of what we would normally pay for a fundus camera. It is quite a substantial difference and has allowed us to deploy 10 such devices in smaller hospitals in rural China which are connected to the Zhongshan Ophthalmic Center," Dr Congdon says in a telephone conversation. "Having the Forus device has allowed us to create a service for rural China that didn't exist previously."

Traditional fundus cameras cost ₹14 lakh or more; the 3nethra is priced at ₹5 lakh because of lower research and development expenses, and cheaper components. Not surprisingly, it has been a big success both in India and abroad. The first prototype was ready by mid-2011 and the company has already sold 125 devices in India and across 12 countries. "The device is a design innovation – beside the imaging system, there is a slit lamp and an auto refractive meter. No device has all these three together and we have still been able to maintain the size and compactness," says Shyam Vasudev Rao, President and Chief Technology Officer of Forus Health.

Will Forus Health be the rare made-in-India global success story in products? It may be too early for that, but the company has already stepped on the growth path with a cloud-based telemedicine service for which it charges hospitals ₹20,000 a year. "The idea is to screen people, identify people with problems and send the images to a specialist," says Forus Health CEO K. Chandrasekhar, who co-founded Forus with Rao in January 2010.

The Global Footprint

IN 12 COUNTRIES IN AFRICA, ASIA, NORTH AMERICA

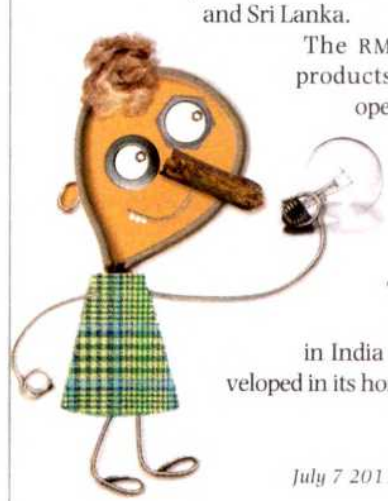
SIEMENS

Power Shift

Siemens switchgear developed for India is bringing electricity to consumers in a growing number of countries.

By MAHESH NAYAK

An RMU, or ring main unit, is a switchgear assembly used to distribute power to consumers. Originally developed in Europe for medium- and low-voltage distribution, Siemens's RMU was designed for 24 kilovolts (kV) distribution networks. But Indian networks are 12kV, so the company had to develop a special RMU for India. This was a challenge, as switchgear mechanisms are complex. Siemens's India team made it simpler and about 100 kilos lighter. It also made it around 40 per cent cheaper than what was sold earlier, and adapted what was an indoor product in Europe for outdoor use here. There are many markets besides India where RMUs need to be installed outdoors, so Siemens plans to launch the product in more markets. It already brings power to consumers in Bangladesh, Nepal and Sri Lanka.



The RMU is among the 31 products Siemens has developed for the Indian market as part of its SMART – Simple, Maint-enance-Friendly, Affordable, Reliable, Timely – initiative.

A decade ago, Siemens in India imported products developed in its home country, Germany,

RACHIT GOSWAMI

The Global Footprint

BANGLADESH, NEPAL, SRI LANKA, INDIA

or made low-cost adaptations with inputs sourced domestically as much as possible. Some international competitors had similar strategies, too. The trouble started when Indian companies with global ambitions started doing the same thing. Siemens had to change how it did things in India.

Sunil Mathur, Executive Director and Chief Financial Officer of Siemens India, says: "To compete with Indian players locally, we had to be able to design, develop, manufacture, engineer and sell products in India." Being locally competitive, he explains, also helps compete with Indian manufacturers globally. So Siemens increased manufacturing in India, and adopted a bottom-up approach. That is how SMART was conceived. The initiative addresses low-end and disorganised markets worth some €21 billion (₹1.6 lakh crore) in India.

Armin Bruck, Managing Director & CEO at Siemens India, says: "We are clear that design for India must be from India, in India. Our SMART portfolio offers both, an existing solution that can be adapted to local conditions or completely new solutions."

For a longer version of the story, log on to
www.businesstoday.in/innovation-siemens

INTERVIEW

In 2011, **Vijay Govindarajan,** *Professor at Tuck School of Business at Dartmouth College in the US, was ranked No. 3 in Thinkers 50 – a global, bi-annual ranking of the world's most influential business thinkers. Every year, he leads a team of future business leaders from top global companies to India and China to help them understand the innovation opportunities emerging markets offer. He speaks to* **N. Madhavan** *about how Indian companies can promote innovation. Edited excerpts:*

What would you say is the innovation opportunity for Indian business?

It is tremendous. India has rightly named this decade as the innovation decade. A national council for innovation has also been established. I think people are recognising the huge opportunity innovation presents. The India story of the last 20 years, while impressive, is not an innovation story. It is really a performance management story. All that Indian companies have done is make themselves globally efficient.

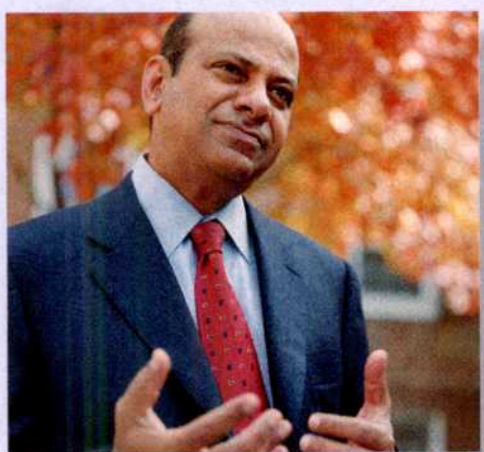
While innovating, whom should companies target – local consumers or global ones?

The focus has to be Indian consumers, especially Indian non-consumers. India can be classified into three sections: 'developed India' with a population of 100 million – the people who live in the 15 major cities. Companies have already targeted and satisfied these consumers. Then there is 'developing India' comprising a population of 300 million people living in 6,000 small towns. Finally, we have the 'underdeveloped India' – the bottom of the pyramid – a population of 700 million living in the 600,000 villages. The one billion who are part of devel-

> The India story of the last 20 years, while impressive, is not an innovation story. It is really a performance management story

'The next 10 years will make or break India"

oping and underdeveloped India are the non-consumers. They have the same problems and needs as the consumers but they cannot afford the solutions that are presently available. Tapping non-consumers means innovating to make products and solutions affordable while retaining quality. That is the biggest opportunity. Indian companies can chart their global story once they meet the demands of Indian non-consumers.



Can you identify one sector where companies can crack the innovation code?

Health-care is a perfect example. Indian health-care is pathetic. Since Independence, the government of India has done a good job of controlling infectious diseases. But it has done a terrible job of tackling non-communicable and lifestyle diseases. Non-consumers of health-care in India are 90 per cent. If you want to find a solution to this problem, we need breakthrough strategies. Interestingly, there are success stories here and private players such as L. V. Prasad Eye Institute and others have figured out ways to reach the non-consumers. Open heart surgeries are done in India for $2,000 while the cost for the same in the US is $150,000. The quality in India is no way inferior. It is a shame that there are only a few such hospitals in India.

On a scale of one to 10 (with 10 being the best) where do Indian companies stand when it comes to leveraging innovation?

I would say at two, but it is a bit unfair to rank them that way. India is an old country, but politically it is just 60 odd years old and economic liberalisation happened a little over 20 years ago. The US has a 200-year-old history. All I would say is that a huge opportunity awaits India Inc. It should build the right innovation mindset.

What challenges do companies face while innovating?

Prior to 1993, neither efficiency nor innovation were in the Indian corporate vocabulary. You could be highly inefficient and you were not penalised thanks to the licence raj. In the last 20 years, efficiency has become the mantra as the Indian economy opened up and international competition arrived. Now it is time for companies to make innovation the central part of their agenda and drive growth.

What should they do?

Three things. Come up with an inspiring goal for 2020 and set a clear direction to achieve it. Second, set smaller targets and finally, pay great attention to execution issues. In my experience, the biggest failure is not lack of ideas but their execution. If Indian companies do these things they can get the innovation engine started. The next 10 years will make or break India when it comes to innovation. We can become a great country or remain a developing nation and that will be decided by the choices we make today.

How have companies in other emerging markets fared at innovation?

Companies in China and Brazil have done well. There have been pockets of excellence in Africa too. But no one has cracked the innovation code yet. This is a race India has not lost yet. We have to build on our strengths such as telecom penetration. The mobile platform should play a critical role in our innovation journey. The cell phone will change India in the next 10 years in the way automobiles revolutionised America 100 years ago. ◆

For the full interview, go to
www.businesstoday.in/innovation-govindarajan

COLUMN

RAVI VENKATESAN

Quit the Comfort Zone

Four pre-requisites for successful innovation

Innovation is a broad term. Innovation can be incremental – the next BMW with more features, more refinement, or more desirable. It can be a new-to-the-world product like Google Glass. Or it can be a new product coupled with a new business model and, therefore, game changing, such as Apple's iPhone, or the global delivery model in IT services. In the developed world, innovation is largely driven by the need to get people to upgrade to the next new thing. In contrast, the big opportunity for firms in India, both Indian and foreign, is to come up with innovations that make things accessible to first-time users – like cellphones, cars or education, or else bring efficiency to an unorganised business like making bus reservations. With its combination of extreme diversity and adversity, India is a unique laboratory for this type of innovation. But the adversity of our country is daunting; success requires the patience of a saint and the pockets of a prince. What differentiates success from failure?

First and foremost, culture: Culture eats both opportunity and strategy for breakfast. To succeed, the innovation team must operate like a real start-up. Create a big and clear mission and hire people who are inspired by it. Find a leader who is passionate, entrepreneurial, resourceful and courageous. Bet disproportionately on hungry, passionate and edgy young people and give them big challenges that they aren't ready for – you need to be young and foolish to attempt the impossible. Have few rules and fewer policies. Reward experimentation and risk taking. Celebrate failure, not just success. Keep things extremely lean, simple and basic. Expect everyone to wallow in the customer's shoes to glean insights, not to gaze at Powerpoint presentations and spreadsheets in meeting rooms. In large companies what this invariably means is creating a separate skunkworks team, reporting to the CEO, firewalled from the bureaucracy of the mainstream.

Embrace lean thinking: This means avoid "big bang" high investment and high risk approaches. Favour "lean start-up" principles, which basically means: "Think big, start small, iterate quickly and scale fast". In the best of times, it's hard to predict what customers might like and pay for and what approaches might work. Given the extraordinary complexity of India, it is even harder to get all these variables right the first time. It is much smarter to field a simple prototype and see what works and what doesn't. If you are McDonald's, it makes sense to experiment and figure out how to run one restaurant profitably before building the next 100. Operating and experimenting on a shoestring ensures you conserve precious cash and buy the time needed to crack the success formula. Systematically running market experiments to test assumptions and hypotheses is smarter than a "spray and pray" approach.

A "no exit" policy: The difference between success and failure is often no more than tenacity. Many innovations fail simply because someone gave up prematurely. The bigger the mission, the longer it takes. At Tata Cummins, we took seven years to crack the code of success and another three years to become the dominant truck engine in India. McDonald's India took nearly a decade to get the model right. Unilever started its Pureit water purifier business over a decade ago and has yet to turn profitable, but they steadfastly keep at it. The Tata Nano is a game changer, but still has major challenges on product, branding, distribution and profitability. This

is why Mukesh Ambani believes it is critical to have a "no exit policy"– failure is simply not an option. If at first you don't succeed, try, try, try yet again.

Leadership matters: Innovation means doing something counter-intuitive and going against the current way of thinking. Organisations – large ones especially – cherish predictability, and ensure that through structures, processes, rules, policies, budgets and controls. Innovation is, therefore, an unnatural act. The bigger, older and more successful the organisation, the more unnatural act an innovation is. There is no shortage of ideas – it's merely that the ground for them is barren. This is why the role of the CEO is so critical. It is the CEO's role to assimilate ideas from all sources and then decide which one to back. It is the CEO's task to choose the maverick leaders who can be counted on to take on tough missions and then give them the air-cover they need. Only the CEO can decide what is the right balance between quarterly pressures and the longer term agenda. It is the CEO's responsibility to ensure a culture that is open to new ideas, tolerates experimentation and failure, and is externally-oriented. Look at any company that we regard as innovative – and it is invariably because the CEO is leading the innovation agenda personally – think of Steve Jobs or Ratan Tata. Too often, though, companies are led by executives who are financially or operationally-oriented. Theirs is the logic of margins, predictability and valuations rather than innovation, entrepreneurship and growth. Such leaders have a tendency to play defence not offence, preferring to protect and leverage their existing business instead of creating new ones. By not engaging hands-on with the innovation agenda, they allow the bureaucracy and budgeting process to emasculate the most promising new ideas and brightest talents.

Economist Joseph Schumpeter said profit is fundamentally a return on successful innovation. Industry shaping innovation is the CEO's most fundamental job. We should remember that as we look at CEO succession. ◆

The writer is former chairman of Microsoft India and author of the forthcoming book Conquering the Chaos, *excerpts from which appear below*

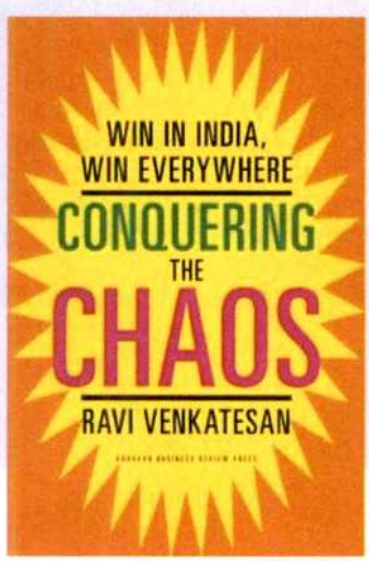
BOOK EXCERPTS

India as an Innovation Lab

The old paradigm was think global, act local. At Hindustan Unilever, we've turned it on its head. We think local – and act global.

Nitin Paranjpe, CEO, Hindustan Unilever

In 1995, McDonald's entered the country by setting up joint ventures with two partners-turned-franchisees, Hardcastle Restaurants and Connaught Plaza Restaurants. McDonald's India has been growing fast and plans to expand its outlets from 275 in 2012 to 500 by 2015. "How did you pull that off?" I asked Amit Jatia, the forty-year-old entrepreneur who manages the franchise in southern and western India. He replied: "Glocalization, in a word. We couldn't cut and paste business models from other countries, but we needed to bring the McDonald's brand and its expertise in supply chains and restaurant operations to India, and combine it with local requirements and culture."



At the outset, the Indian partners had to convince McDonald's that to succeed in India, it would need an entirely different menu, low price points, and a highly localized business model. Customer feedback had shown that many Indians would not even enter a restaurant that served beef or pork. India therefore became the first country in the world where McDonald's does not offer beef or pork

items. Other than fries, beverages, the McChicken sandwich, and the Filet-O-Fish, there is little in common between a McDonald's in Bangalore and one in Boston.

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It took McDonald's and its partners five years to figure out a customer value proposition and business model that would deliver results in India. Called "branded affordability," the strategy is to keep prices low while making profits. McDonald's introduced a Happy Price Menu for ₹20 (around $0.40) and refined its Indian business model to make profits on it. Since McDonald's is a high-volume, low-margin business, both Jatia and Vikram Bakshi, the franchisee for north and east India, figured out that at that price sales would have to be three to four times US store sales to break even. Since that was not likely initially, they had to find a way to reduce costs while maintaining global food safety norms and customer service standards.

McDonald's identified the must-haves in India as safe food and one-minute service. Everything else was only nice to have, so they eliminated most of it. For instance, the Indian franchisees localised most of the equipment, except for a few key pieces. For instance, McDonald's specifies food-grade stainless steel under the counters, but the India team, realising that was not critical for food safety, replaced it with less expensive material. The team found a lot of excess equipment, such as large vats, in the standard store design, so it developed three formats based on store size. Such tweaks together brought down the investment in each store by between 30 per cent and 50 per cent.

The India team also brought down taxes in several ways. For instance, branded fries attract a 20 per cent excise duty, but McDonald's India saved that by removing the supplier's name. Similarly, it found that transporting chopped lettuce and milkshake mix attracted duties from the city government, but lettuce heads and milk didn't do so. That seemed illogical, so it lobbied for change. Finding utility costs high in India, the company worked with IIT Bombay, one of India's top engineering colleges, to design a system that recovers waste heat to boil water and to reduce the power consumed by air conditioners in each outlet by 25 per cent. Electronic ballast for all lighting and LED signs reduced costs further. All this saved about 20 per cent to 25 per cent in power costs. Such systematic examination of costs allowed the Indian partners to become profitable despite the low prices they charge Indian consumers.

McDonald's success is also due to its supply chain. It spent six years and around $90 million (around ₹450 crore) to set up a food chain in India well before opening its first restaurant. Creating the cold chain involved the import of state-of-the-art food processing technology from its international suppliers. It has brought about major changes in vegetable farming, benefitting India's farmers.

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McDonald's was fantastic in transferring know-how," says Smita Jatia, Amit's wife and the managing director of Hardcastle Restaurants. To learn the McDonald's way, the start-up team went through a month-long training program in Indonesia. A global team then flew to India to figure out every aspect of the business. McDonald's India hired people with high school degrees and invested millions of dollars in training them in Chicago and Asia. That investment has paid off in commitment and performance.

The final element of McDonald's success came from investing heavily in creating a trusted and aspirational brand. The challenge was to change consumer perceptions from American don't-know-what-to-expect discomfort to Indian values, families, culture, and comfort. In short, it's a friendly place where families can enjoy themselves and feel they are having a special time. The team designed everything around this – from the menu to the layout and décor.

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Even with rising prosperity, most products and services from the developed world cater only to the top 10 per cent of the developing world – the super-premium and premium segments. Those goods and services are a stretch for the aspiring middle class and are out of the reach of millions of poor people. However, the big opportunity for companies Indian and Western isn't the bottom of the pyramid, but the rapidly growing middle market, which could be nearly $1 trillion in size by 2020. This segment is very demanding and driven by the desire for value for money. Middle-market customers have limited disposable incomes but big aspirations; they will not accept products that compromise quality or functionality. That's true not just of cellphones, fast foods, and shampoos but of trucks and tractors, too.

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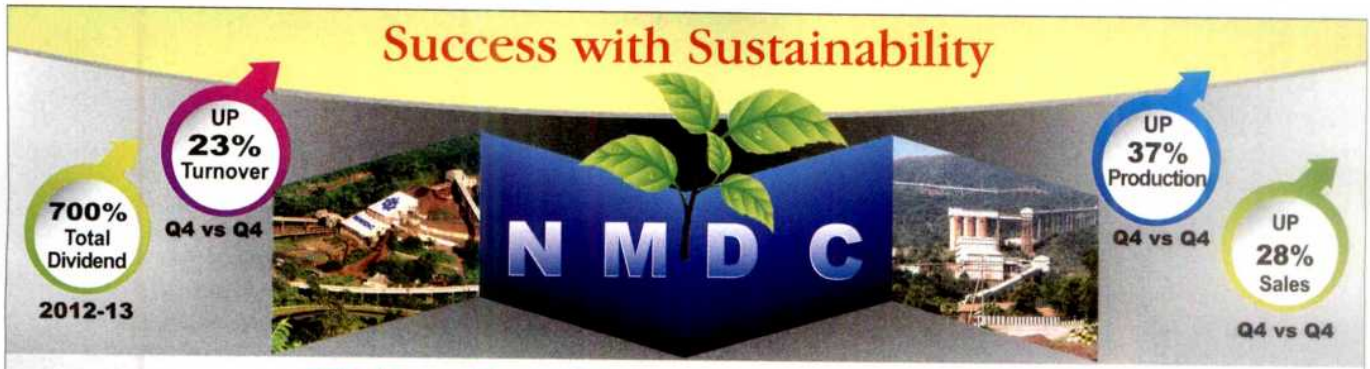
Success with Sustainability



Highest Ever Dividend - 700% on Equity

PART I

(Rs. in crores)

Statement of Audited Financial Results for the Year Ended 31st March 2013

	Particulars	Three months ended			Year to date	
		31-Mar-13	31-Dec-12	31-Mar-12	31-Mar-13	31-Mar-12
		Audited	Un-audited	Audited	Audited	Audited
1.	**Income from operations**					
	(a) Net Sales/Income from Operations (net of excise duty)	3,202.10	2,046.83	2,593.65	10,698.67	11,260.53
	(b) Other operating income	2.15	0.86	0.93	5.60	1.36
	Total income from operations (net)	**3,204.25**	**2,047.69**	**2,594.58**	**10,704.27**	**11,261.89**
2.	**Expenses**					
	(a) Consumption of raw materials	7.62	8.54	6.05	30.94	24.01
	(b) Consumption of Stores & spares	100.49	64.01	81.19	257.99	232.56
	(c) Changes in inventories of finished goods and work-in-progress	-73.07	-49.49	-39.62	-184.33	-22.72
	(d) Employee Benefit expense	161.46	139.19	136.22	579.92	529.10
	(e) Royalty & Cess	303.51	204.69	292.80	952.43	1,022.61
	(f) Selling Exps incl. Freight out	392.86	176.37	-2.28	818.00	144.02
	(g) Depreciation and Amortisation	38.68	33.87	33.08	138.52	130.17
	(h) Other Expenses	561.58	113.12	145.41	871.35	406.38
	Total expenses	1,493.13	690.30	652.85	3,464.82	2,466.13
3.	Profit from operations before Other income, finance cost & exceptional items (1-2) :	1,711.12	1,357.39	1,941.73	7,239.45	8,795.76
4.	Other income	547.39	556.26	550.29	2,238.87	2,016.49
5.	Profit from ordinary activities before finance cost & exceptional items (3+4) :	2,258.51	1,913.65	2,492.02	9,478.32	10,812.25
6.	Finance cost	13.20	0.00	1.48	13.20	1.48
7.	Profit from ordinary activities after finance costs but before exceptional items (5-6) :	2,245.31	1,913.65	2,490.54	9,465.12	10,810.77
8.	Exceptional Items	0.00	0.00	51.30	0.00	51.30
9.	**Profit from ordinary activities before Tax(7-8)**	**2,245.31**	**1,913.65**	**2,439.24**	**9,465.12**	**10,759.47**
10.	Tax expense	780.36	620.85	796.96	3,122.75	3,494.08
11.	Net Profit from ordinary activities after tax (9-10)	1,464.95	1,292.80	1,642.28	6,342.37	7,265.39
12.	Extraordinary Items (net of tax expense)	-	-	-	0.00	-
13.	**Net Profit for the period (11-12) :**	**1,464.95**	**1,292.80**	**1,642.28**	**6,342.37**	**7,265.39**
14.	Paid-up Equity Share Capital : Face value per share	396.47 Re 1/-	396.47 Re 1/-	396.47 Re 1/-	396.47 Re 1/-	396.47 Re 1/-
15.	Reserves excluding revaluation reserves				27,114.49	24,009.89
16.	i & ii EPS for the period (Rs.) - Basic & diluted before and after extraordinary items	3.69	3.26	4.14	16.00	18.33
		(Not Annualised)			(Annualised)	

PART II

Select Information for the Year Ended 31st March 2013

	Particulars	Three months ended			Year to date	
		31-Mar-13	31-Dec-12	31-Mar-12	31-Mar-13	31-Mar-12
A.	**PARTICULARS OF SHAREHOLDING**					
1.	Public share holding					
	- Number of Shares	792,769,420	792,769,420	396,297,820	792,769,420	396,297,820
	- Percentage of shareholding	20	20	10	20	10
2.	Promoters & Promoter group shareholding					
	a) Pledged/Encumbered					
	- Number of Shares	0	0	0	0	0
	- Percentage of shares (as a % of the total shareholding of promoter & promoter group)	0	0	0	0	0
	- Percentage of shares (as a % of the total share capital of the company)	0	0	0	0	0
	b) Non Encumbered					
	- Number of Shares	3,171,946,580	3,171,946,580	3,568,418,180	3,171,946,580	3,568,418,180
	- Percentage of shares (as a % of the total shareholding of promoter & promoter group)	100	100	100	100	100
	- Percentage of shares (as a % of the total share capital of the company)	80	80	90	80	90

Particulars	Three months ended 31-Mar-2013
B. INVESTOR COMPLAINTS	
Pending at the beginning of the quarter	NIL
Received during the quarter	27
Disposed of during the quarter	27
Remaining unresolved at the end of the quarter	NIL

(Rs. in crores)

Segment wise Revenue, Results and Capital Employed under clause 41 of the Listing Agreement

	Particulars	Three months ended			Year ended	
		31-Mar-13	31-Dec-12	31-Mar-12	31-Mar-13	31-Mar-12
		Audited	Un-audited	Audited	Audited	Audited
1.	**Segment Revenue** (net sale/income from each segment)					
	a) Iron Ore	3,166.84	2,032.08	2,568.50	10,609.50	11,204.56
	b) Other Minerals & Services	46.87	29.39	35.48	145.56	94.33
	Total	3,213.71	2,061.47	2,603.98	10,755.06	11,298.89
	Less : Inter segment revenue	9.46	13.78	9.40	50.79	37.00
	Net sales / Income from operations	**3,204.25**	**2,047.69**	**2,594.58**	**10,704.27**	**11,261.89**
2.	**Segment Results** (profit (+) / loss (-) before tax and interest from each segment)					
	a) Iron Ore	1,776.43	1,392.57	2,009.36	7,385.10	8,993.64
	b) Other Minerals & Services	-13.48	9.22	-39.46	28.76	-42.15
	Total	1,762.95	1,401.79	1,969.90	7,413.86	8,951.49
	Less : Interest	-13.20	0.00	-1.48	-13.20	-1.48
	Add : Other unallocable income net off unallocable expenditure	495.56	511.86	470.82	2,064.46	1,809.46
	Total Profit before Tax (incl discontinued operations)	**2,245.31**	**1,913.65**	**2,439.24**	**9,465.12**	**10,759.47**
3.	**Capital Employed** (Segment assets-Segment Liabilities)					
	a) Iron Ore	3,048.72	2,997.19	2,214.12	3,048.72	2,214.12
	b) Other Minerals & Services	106.38	109.27	78.87	106.38	78.87
	c) Other Reconciliation items	24,454.11	25,349.67	22,203.38	24,454.11	22,203.38
	Total	**27,609.21**	**28,456.13**	**24,496.37**	**27,609.21**	**24,496.37**

(Rs. in crores)

Statement of Assets and Liabilities

	Particulars	Audited	
		Year ended 31-Mar-2013	Year ended 31-Mar-2012
A	**EQUITY AND LIABILITIES:**		
1	Shareholder's funds		
	(a) Share Capital	396.47	396.47
	(b) Reserves and Surplus	27,114.49	24,009.89
	Shareholders funds	**27,510.96**	**24,406.36**
2	**NON-CURRENT LIABILITIES**		
	(a) Deferred Tax Liability (Net)	104.49	100.09
	(b) Other Long term Liabilities	30.78	23.41
	(c) Long term provisions	12.38	13.45
	Non-current liabilities	**147.65**	**136.95**
3	**CURRENT LIABILITIES**		
	(a) Trade payables	160.76	165.82
	(b) Other current liabilities	1,214.53	781.15
	(c) Short term provisions	1,860.39	1,158.16
	Current Liabilities	**3,235.68**	**2,105.13**
	TOTAL EQUITY AND LIABILITIES	**30,894.29**	**26,648.44**
B	**ASSETS**		
1	**NON-CURRENT ASSETS**		
	(a) Fixed Assets	4,500.75	2,682.96
	(b) Non-current investments	249.67	247.77
	(c) Long term Loans and Advances	545.45	512.43
	(d) Other non-current assets	5.37	6.61
	Non-Current Assets	**5,301.24**	**3,449.77**
2	**CURRENT ASSETS**		
	(a) Inventories	637.46	458.92
	(b) Trade receivables	1,082.21	737.02
	(c) Cash and bank balances	21,025.75	20,264.58
	(d) Short term Loans and Advances	2,058.10	1,047.64
	(e) Other Current Assets	789.53	690.51
	Current Assets	**25,593.05**	**23,198.67**
	TOTAL - ASSETS	**30,894.29**	**26,648.44**

NOTES

1. The financial results have been reviewed by the Audit Committee at its meeting held on 29th May 2013 and approved by the Board of Directors at its meeting held on 29 May 2013.
2. The Board of Directors has recommended a final Dividend of Rs. 4/- per share of Re 1/- in addition to the Interim Dividend of Rs.3/- (Rs. 2/- paid in Nov 12 and Re 1/- paid in Mar 13) per share of Re 1/- for the year 2012-13.
3. Considering the Hon'ble Supreme Court Judgement dated 18th April 2013 on illegal minning cases at Karnataka, during the current quarter, 10% of sale proceeds towards contribution of special purpose vehicle to be created in Karnataka Rs. 337.13 Crore and amount payable towards penalty/compensation Rs. 68.66 Crore have been expensed.
4. Action has been initiated to sell the plant and machinery of Silica Sand project, Lalapur. The net profit after tax from the discontinued operations of the Lalapur and UPFO units Rs.1.87 Crore (previous year loss Rs. 0.16 Crore) is included in the above results.
5. The figures of last quarter are the balancing figures between audited figures in respect of the full financial year and the published year to date figures upto the third quarter of the current financial year.
6. The above financial results are subject to audit under Sec 619(4) of the Companies Act, 1956 by the Comptroller and Auditor General of India.
7. Figures for the previous year have been regrouped wherever considered necessary so as to conform to the classification of the current year.

Place : New Delhi
Date : 29-05-2013

For **NMDC Limited**
Sd/-
(C.S. VERMA)
Chairman-cum-Managing Director

NMDC LIMITED
(A Government of India Enterprise)
Regd. Office: "Khanij Bhavan", 10-3-311/A,
Castle Hills, Masab Tank, Hyderabad- 500028.
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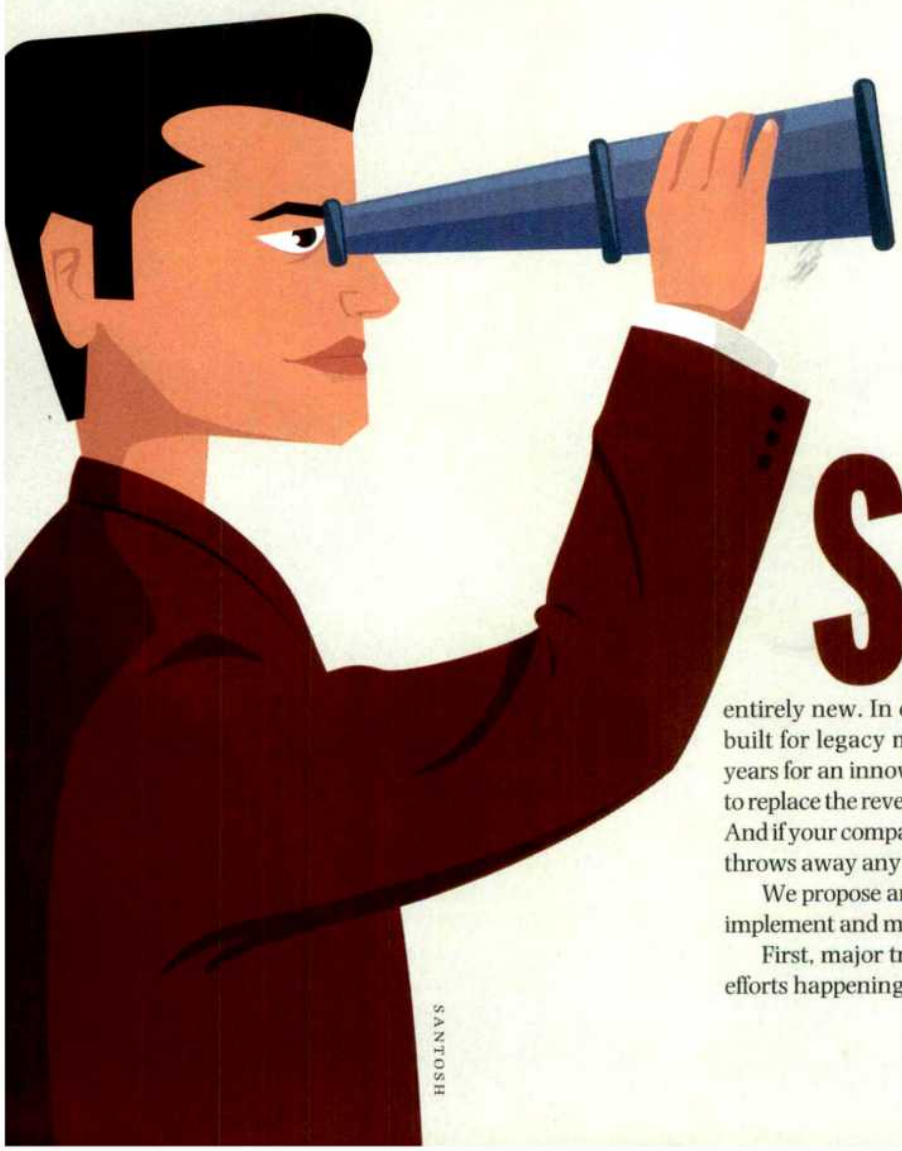
TWO ROUTES TO RESILIENCE

Rebuild your core while you reinvent your business model.

By CLARK GILBERT, MATTHEW EYRING, and RICHARD N. FOSTER



SANTOSH

Sooner or later, your company will probably need to transform itself in response to market shifts, groundbreaking technologies, or disruptive start-ups. Some strategists suggest doing this quickly and aggressively, by making a clean break from the past and turning your firm into something entirely new. In our experience, though, organisations built for legacy markets rarely pull this off. It can take years for an innovative initiative to become large enough to replace the revenue an incumbent has lost to disruption. And if your company completely abandons its old model, it throws away any advantage it still has.

We propose an approach that's both more practical to implement and more sustainable. It rests on two insights:

First, major transformations need to be two different efforts happening in parallel. "Transformation A" should

reposition the core business, adapting its current business model to the altered marketplace. "Transformation B" should create a separate, disruptive business to develop the innovations that will become the source of future growth.

Second, the key to making both transformations work is to establish a new organisational process we call a "capabilities exchange," through which the parallel efforts can share select resources without changing the mission or operations of either.

Dividing the effort in two allows leaders to develop a new strategy for the core that doesn't need to make up for all the business lost to disruption. It also gives the innovative new operation the time it needs to grow. What one transformation effort could rarely accomplish alone, two together have a better chance of achieving.

IBM and Apple both took this dual-transformation approach. In the mid-1990s, IBM reconceived its mainframe business, shifting from proprietary systems to servers running software based on open standards. At the same time, it built a separate Global Services organisation that became the source of its future growth. In the late 1990s, Apple repositioned its struggling PC business, trimming offerings and focusing on design. Shortly afterward, it launched the iPod and opened the iTunes store, which led to phenomenal growth.

More recently, we've seen the dual-track process unfolding at Barnes & Noble (B&N) as the retailer reacted to the severe disruption of e-books, and at Xerox in response to the slow erosion of its core copier business. We will touch on the lessons Xerox and B&N have learned as we describe how the process works. But we'll focus primarily on the case in which one of our authors (Clark Gilbert) developed and tested our approach: the *Deseret News*, which embarked on a dual transformation in re-

sponse to the upheaval caused by the Internet.

A Seismic Disruption

Founded in 1850 by Mormon pioneers, the Salt Lake City-based *Deseret News* thrived for 150 years under the traditional newspaper model: For a monthly fee, subscribers received on their doorsteps a daily paper filled with articles on a wide range of subjects – local and national news, arts, sports, entertainment, and more. Local advertisers paid to reach this audience through display ads, classifieds, and separate coupon inserts.

Incumbents most commonly experience disruption as a drop in revenue. At the *Deseret News* that drop began gradually and then became swift and deep. By 2008 Internet upstarts were assaulting every part of its revenue base. Craigslist, Monster.com, and AutoTrader.com siphoned off classified revenues. Google's search-term advertising competed for display-ad dollars. Free news websites like the Huffington Post, smartphones, and social media sites diverted readers' time and attention, drying up subscription dollars. Since advertising prices are pegged to circulation, declining readership hit all revenue streams at once. From 2008 to 2010, the *Deseret News* lost nearly 30 per cent of its print display-ad revenues and an eye-popping 70 per cent of print classified revenues.

The same forces were at work throughout the industry, as more than a dozen big-city newspapers closed their doors. The *Rocky Mountain News*, founded just nine years after the *Deseret News* in Denver, was shuttered by its parent, E.W. Scripps, in 2009. That was the year that Gilbert, a former Harvard Business School professor who had done research on market disruptions, came to the Deseret organisation.

Dire as the situation was, it wasn't hopeless. An assault on a business model doesn't mean it's entirely worthless. If the existing model could be adjusted to become self-sustaining, while innovative ways could be found to exploit the opportunities in the new digital landscape, the *Deseret News* could get back on course.

That's how the members of the company's leadership team saw it when they launched two distinct efforts. On the first floor of the Salt Lake City headquarters, they set out to reconceive the print operation. On the fifth floor they set up a new organisation, Deseret Digital Media, to take over the company's websites and focus exclusively on web publishing.

Transformation A: Repositioning the Legacy Business

The goal of transformation A is to find the strongest competitive advantage your current model can sustain in the disrupted marketplace. Too often companies take a narrow view of the potential left in a business. They focus only on preserving their margins – mainly by reducing costs. That's what Borders tried to do in response to Amazon, by closing store after store, vainly hoping to hold on to its profits by shrinking.

While costs will almost certainly have to be cut, incumbents need to take a more expansive look at their business. That requires asking foundational strategic questions: What can we still do better than both our traditional rivals and the upstarts? What must we give up? Why do our customers come to us? What is the real need that connects them to our brand?

At B&N, finding a sustainable core meant exiting the small-store market and focusing on the profitable niche of college bookstores. More fundamentally, it meant reconsidering how to connect with the core needs of the chain's most viable customers, such as moms with strollers. In practice that translated into redefining the concept of the core B&N bookstore from a low-margin big-box retailer to an enriching environment where people could spend time with children and buy kids' books, gift books, and other gift items (which all could be sold at far higher margins). At Xerox it meant re-

Xerox Revamps Copiers and Launches Services

DISRUPTION

In the 1990s competition from Asia steadily eroded the margins and market share of Xerox's more-complicated and expensive copiers and printers. By 2000 net losses approached $273 million on $19 billion in revenues.

REPOSITIONED CORE

A line of copiers that are simpler, more cost-effective to produce, more technically advanced, and less expensive to operate.

NEW MODEL

A Xerox Global Services unit that took over document management and other processes for large organisations, an effort accelerated by the $5.5 billion buyout of ACS in 2009.

SHARED RESOURCES

R&D, branding, marketing.

RESULTS SO FAR

By the second quarter of 2012, services accounted for 51 per cent of the company's business. Total corporate revenues reached $23 billion and net income neared $1.3 billion in 2011.

furbishing 95 per cent of its product line by cost-effectively making more technically advanced copiers that were easier to use, better integrated with the Internet, and less expensive to run.

For the *Deseret News* the key was to focus on its brand – its reputation for covering issues related to family, faith, education, care for the poor, financial responsibility, and the media's influence on values. Those six subjects had allowed the paper to distinguish itself from its local rivals. They were also resonating with visitors to its website – and not just with people in Salt Lake but with like-minded readers from all across the country.

So, like the *New York Times*, the *Deseret News* positioned its print operation to serve a national audience. In addition to continuing its local daily paper, it launched a weekly print publication mailed to readers throughout the United States who were interested in issues of faith and family. The idea was to compensate for the decreasing revenue from local advertisers with new revenues from a smaller but more lucrative set of national clients that wanted to reach the larger audience of highly educated, high-income families the paper's brand could attract. In this way, the thinking went, the paper could make the most use of the greatest part of its current operations – its sales force, its print journalists, and its printing infrastructure.

This was not a silver bullet. Costs still had to be cut if the daily paper was to survive. But which costs? And by how much? To avoid destructive across-the-board reductions, the management team instituted something it calls "story cost accounting." It calculated the cost of producing each story by multiplying the time it took the author to write the piece by his or her hourly compensation, including benefits. With this measure, everyone saw how expensive it was to produce commodity news that competitors could do just as well. Guided by the numbers, the leadership cut the overall costs of the print business by 42 per cent.

We in no way want to minimise the pain involved in reducing an operation's costs by 42 per cent. To remain viable, the *Deseret News* laid off 57 full-time and 28 part-time staffers in August 2010. But as fewer resources were devoted to sports and routine news, more were invested to produce in-depth and investigative journalism in the six areas of editorial emphasis. The cost per story in those areas roughly doubled.

Targeted cost cuts allow the legacy organisation to find equilibrium in the disrupted marketplace. At Xerox, senior vice president Ursula Burns saved billions by winning concessions from unions, shutting outmoded factories, and outsourcing thousands of jobs to the contract manufacturer Flextronics. In the end the company's 91,000-person workforce was cut by more than 40 per cent. But what in 2000 had been a $19 billion business with net losses of $273 million became a stable, profitable $15 billion business four years later.

B&N closed all 798 B. Dalton locations and its underperforming megastores (including its flagship store in New York's Lincoln Center). It also aggressively expanded into the textbook segment, acquiring a leading US contract operator of college bookstores. And by focusing on higher-margin gifts, gift books, children's books, and textbooks, B&N found a way to make the brick-and-mortar operation profitable on its own even as its rival Borders succumbed to bankruptcy and liquidation.

With a chain of close to 700 retail stores operating in the black, B&N's repositioned core may endure for years to come. The *Deseret News* may also continue its print operation long into the future. By 2012 the rollout of its national weekly publication had doubled the company's total print circulation– from approximately 75,000 to more than 150,000 – and generated enough advertising revenue to turn the *Deseret News* into one of the nation's fastest-growing print newspapers.

Transformation B: Building the Future

To realise their fullest growth potential, incumbents need to embrace the possibilities of the new marketplace as energetically as the disrupters do. That's the purpose of transformation B.

Much has been written in these pages and elsewhere about how to foster this kind of entrepreneurial innovation within big companies. (See, for instance, the HBR articles "Reinventing Your Business Model," December 2008, and "Discovery-driven Planning," July 1995.) By now it's accepted wisdom that companies should address the changing market the way start-ups do – asking not "What do we do that customers still want?" (that's the focus of transformation A) but "What unmet needs do customers have in today's environment?" They must conceive a business model that can fulfil those needs profitably and carefully implement and evolve it, testing essential assumptions first and quickly adjusting the model as they learn.

Transformation B, therefore, is the construction of a separate business with its own profit formula, dedicated staff, distinct processes, and singular culture. The idea is to exploit the disruption without being encumbered by the legacy margins, revenue requirements, or practices of the core business.

That's what Xerox did in 2001 by setting up Xerox Global Services (XGS), which took over document management and other processes for corporations, state governments, and other large organisations. And it's what B&N did in 2009, when it recruited e-commerce executive William Lynch to head Barnes & Noble.com and to launch an initiative far from its New York City headquarters, in a former Palo Alto bread bakery, where

a new team conceived the Nook.

And even as the repositioned *Deseret News* was refocusing its print content and lining up national advertisers on the first floor, up on the fifth floor publisher Christopher M. Lee was building Deseret Digital, which exploited online opportunities beyond merely repurposing the print newspaper. While the *Deseret News* moved towards a lower-volume, higher-margin model, Deseret Digital went in the opposite direction, establishing a lower-cost operation that could take advantage of the higher-volume but lower-margin opportunities the Internet made possible.

Like the Huffington Post, TheAtlantic.com, and Forbes.com, Deseret Digital mixed a small number of staff-reported pieces with crowdsourced material from dozens of outside contributors, producing content at a small fraction of what it cost on the print side. The digital offerings built on the company's core brand, focusing on the same six key subjects but often in ways that had no analogue in print.

For dual transformation to work, each organisation must operate as if the future of the company depended on it alone

Online-only content, like curated selections of stories from other media, blogs, contributor networks, and interactive forums, became critical to driving overall site traffic. So did original new products. As an alternative to traditional film review and rating systems, for instance, the digital editors created a family media guide called Ok.com, to which readers contribute movie appraisals. Through syndication, this unique content has brought in a new revenue stream.

Additional revenues have come from auctions, online deals similar to Groupon's, demographic and behaviourally targeted advertising, search engine marketing, and business directory listings. A nontraditional sales channel was created to capture and manage those revenue streams, which required a telesales staff and people who could build a network that allowed advertisers to place ads directly on the site. Operations were organised to address the fact that most online revenues come in post-publication, as advertisers pay per click or per customer lead, unlike what happens on the print side, where subscribers pay in advance. It will take time, of course, for all these new revenue streams to reach their potential. In the short term, start-ups rarely draw in revenues on anything like the scale of the core business. Just like IBM, Xerox needed at least a decade to build its B organisation into the corporation's principal business. But by the second quarter of 2012, 51 per cent of its revenues came from XGS. In its most recent fiscal year, total corporate revenues reached $23 billion and net income neared $1.3 billion.

At B&N, Lynch's operation surprised the book world by beating Amazon to the punch with a colour e-reader and capturing 27 per cent of the e-reader market in only two years. But while the Nook division has now posted two years of strong revenue increases, growing from $105 million in fiscal 2010 to $933 million in fiscal 2012, the bulk of B&N's $7 billion in revenues still comes from its retail business. Development costs have made profitability for the Nook start-up elusive, and the unit has been losing millions of dollars a quarter. In early 2012, Microsoft stepped in with a $300 million cash infusion in return for a 17.6 per cent stake in the business. Together with the sustainable retail operation, it may buy B&N the time to see its transformation efforts play out.

In the same three years it took the *Deseret News* to become one of the fastest-growing print publications in the country, Deseret Digital roughly tripled its small starting revenue base as a collection of websites. Revenues from the disruptive business are now about a quarter of those of the legacy media division (which also includes radio and television stations owned by the parent company).

Generating Full Value: The Capabilities Exchange

Launching a successful start-up inside a threatened legacy business takes creativity and grit. But scaling up the new business to become the company's growth engine requires something more – a structure that allows the two organisations to live together and share their strengths. That's the role of the capabilities exchange, which coordinates the two transformation efforts so that each gets what it needs and is protected from interference by the other. Setting up this exchange is a five-step process. Let's look at each step in turn.

1. Establish leadership. This is the simplest step but also the one most open to abuse. Many senior executives may volunteer to do this assignment on a part-time basis: the CFO, the CTO, the CMO, and so on. Don't let them. Since the capabilities exchange allocates resources at the high-

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est organisational level, it requires authority from the highest level. That means it should be led by just a few top people – typically, the CEO, the leader of the core transformation, and the leader of the disruptive business.

Gilbert and Lee managed the exchange at the *Deseret News*. And even in a company as large as Xerox, the exchange was overseen only by its CEO – first Anne Mulcahy and then her successor, Ursula Burns – and the head of XGS, Jim Joyce (who was succeeded by Lynn Blodgett). At B&N it was managed by chairman Leonard Riggio, who oversaw the core retail transformation, and William Lynch, the head of the e-reader development effort (who was later promoted to CEO).

2. Identify the resources the two organisations can or need to share. This generally begins by determining which capabilities the B organisation can borrow from the core to gain a competitive advantage over independent start-ups. Branding is the most typical shared resource. Marketing, customer data, and design are often shared, too.

At Xerox the most potent shared advantage turned out to be research and development. Xerox researchers, for instance, applied advanced analytics software to manage the E-ZPass toll collection system for New York and New Jersey. The company's storied capabilities in R&D were instrumental in convincing potential clients like P&G and Dow Chemical that Xerox could bring cutting-edge technologies to the services side, prompting them to sign on for long-term engagements.

B&N, as anyone who has walked into one of its outlets knows, now devotes floor space to the Nook, turning the seeming liability of bricks and mortar into an advantage. Before they buy an e-reader, people like to hold the device, try it out, ask questions, and know where they can get tech support. Using store space to establish a presence in e-books was something that Amazon couldn't do, and it helped B&N grab that 27 per cent of the e-reader market so quickly.

And the *Deseret News* and Deseret Digital share a brand, editorial content, marketing resources, and data about customers and their reading behaviour.

3. Create exchange teams. In many traditional synergy efforts, everyone is expected to think about ways resources might be shared. But in a capabilities exchange, that responsibility is carefully confined to a series of teams. The senior leaders create those teams by assigning to a small number of people from both transformation efforts the responsibility for allocating each resource.

The Deseret team in charge of shared content, for example, consists of the print features editor, the director of digital content sourcing, and the search engine optimisation manager from Deseret Digital. Together they're responsible for pulling resources in either direction. For example, they manage the process by which the print operation uses stories from the digital contributor network. And when Deseret Digital was setting up Ok.com, the shared-content team helped it draw insights about the target family audience from people in both print and digital.

Keeping each team focused on one resource allows more flexibility. Groups can form or dissolve as needed with minimal impact on the regular operations. Keeping the lines of authority short – from the few people on the teams to the few people at the top – is the key to ensuring that resources really go where they're needed.

4. Protect boundaries. For dual transformation to

Barnes & Noble Sells Books and Reading Devices

DISRUPTION

As Amazon's online sales ate into bookstore profits, the Kindle burst onto the scene in 2007. In three and a half years, e-book sales surpassed bound-book sales on Amazon.com.

REPOSITIONED CORE

A chain of retail outlets that are designed to be enriching places to shop for gifts and spend time with children and that focus less on lower-margin high-volume bookselling and more on higher-margin children's books, coffee-table books, and gifts.

NEW MODEL

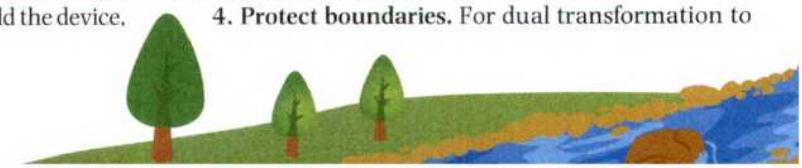
The Nook e-reader business, which leapfrogged Amazon's Kindle technology and used the chain's brick-and-mortar stores to give customers physical access to the product in a way that Amazon couldn't match.

SHARED RESOURCES

Branding, publisher relationships, customer intelligence, physical merchandising space.

RESULTS SO FAR

B&N's $7 billion in 2012 revenues came mainly from its profitable chain of 700 retail bookstores. The Nook captured 27 per cent of the e-reader market in two years, growing revenues from $105 million to $933 million. While the Nook division remains unprofitable, it recently received a $300 million equity investment from Microsoft.



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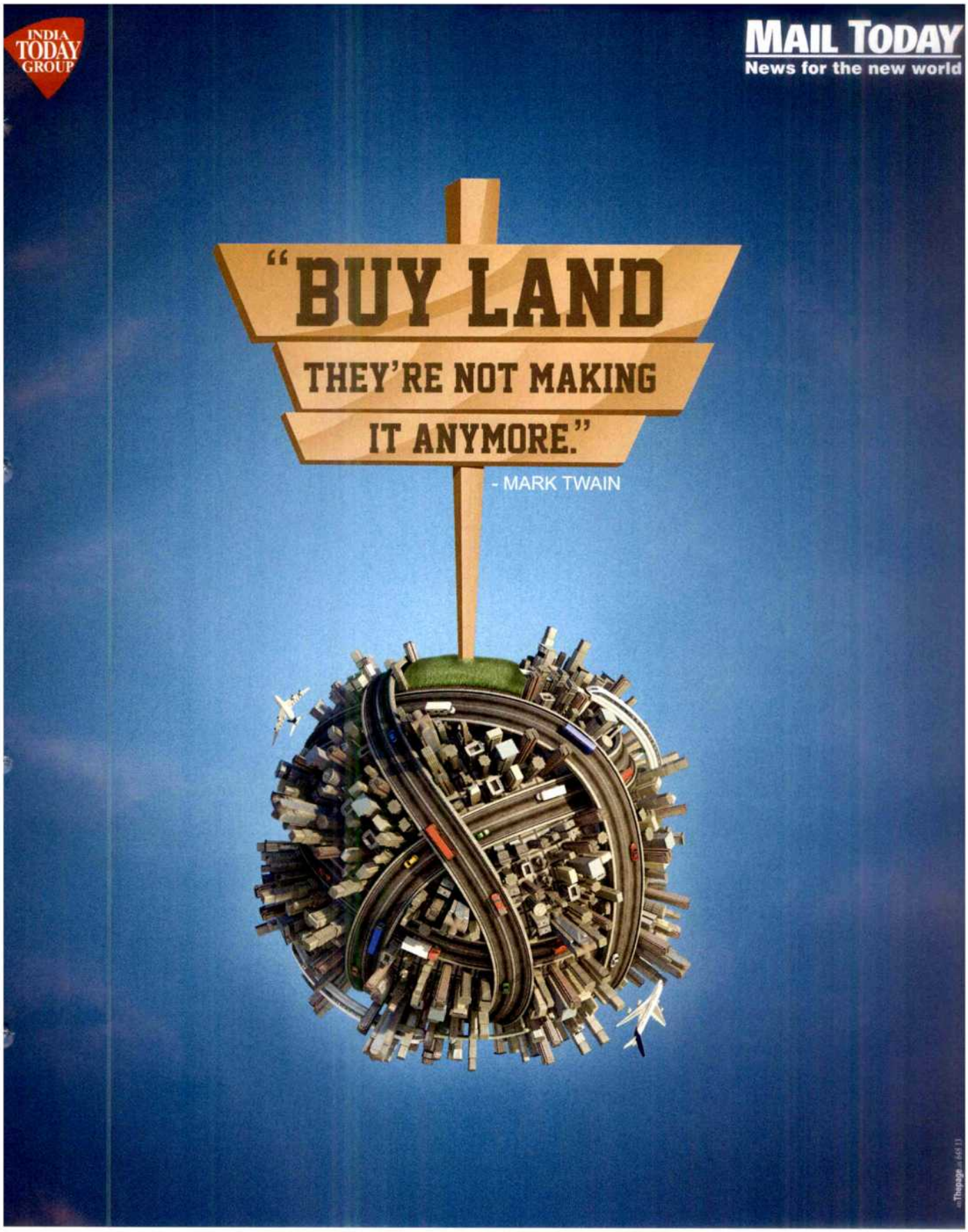

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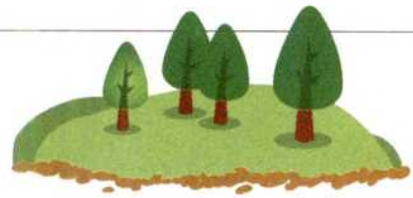

work, each organisation must operate as if the future of the company depended on it alone. The *Deseret News* has to be led by a print executive who knows in his bones that print is here to stay. Deseret Digital needs a leader who believes that print is dead and that digital is the only future.

That leaves the responsibility for refereeing between the two sides squarely at the top. The first imperative, we've found, is to stop legacy employees from trying to meddle with the disruptive new business. At Deseret News Publishing this is referred to as "stomping on the camel's nose." (The expression comes from the proverb "If the camel gets his nose in the tent, his body will soon follow.")

Interference from the core was a real danger at Xerox when Mulcahy authorised the company to invest $100 million to launch the disruptive division at the same time that she had Burns relentlessly cutting costs out of the core. The core's salespeople were openly hostile to the very idea of XGS. They treated its first victory, a $67 million contract from Baxter Healthcare, as a fluke even though a typical copier sale brings in only about $1 million in annual revenues.

So for Mulcahy and Burns, policing boundaries meant coming down in favour of the services sales force whenever there was a squabble over who owned a customer. "I had to make calls on who covered what account," says Burns. "For *Fortune* 500 clients, most of the engagement is a services discussion, not, 'Will you buy a colour printer from me?' "

But it's also important to avoid bleeding the core to prop up the new venture. To prevent that, Deseret Digital pays a licensing fee for the content it borrows from the print publication. Accounting for each side is kept strictly separate – the digital side gets to keep the money it makes from the borrowed content, but it has to pay for what it gets from the other side.

5. Scale up and promote the new business. In the end, though, top executives should not treat the two organisations equally. Ideally, the repositioned A organisation will remain (or become) profitably self-sufficient. But the disruptive business is the source of future growth. Accordingly, if all goes well, the B organisation should receive an increasing share of corporate resources and executive attention.

Hard as it is to pull off this kind of transformation, it can be even harder to get external stakeholders to buy into it. So top management must put the new business centre stage when talking to the outside world about the company's vision and prospects. Otherwise, markets and customers will not see the organisation's evolution.

Ideally, the repositioned A organisation will remain profitably self-sufficient. If all goes well, the B organisation should receive an increasing share of corporate resources and executive attention

Today the *Deseret News* is in a stronger position than it was before it was disrupted. Still, a deep commitment to digital publishing is the only viable long-term position for the company. Currently about 150,000 people subscribe to the print products, but nearly three million visit Deseretnews.com each month. Instead of remaining a local newspaper, Deseret is turning itself into a national resource for its target audience. That's its future, and that must be the company's dominant story.

Xerox has slowly transformed itself from a product maker to a services company, now that XGS accounts for a majority of corporate revenues. The company tells that story through its "Ready for Real Business" campaign, which features testimonials from services clients like Michelin and Virgin Atlantic Airways. At B&N the profitable, repositioned core is providing the lion's share of revenues for now, but the company's future awaits in the dynamic e-book marketplace. That's why CEO Lynch calls B&N a technology company, not a bookseller.

Finding firms in the grip of disruption is becoming easier and easier. Our own research tells us that corporate life spans are shrinking: In 1958 the average tenure of a company on the S&P 500 was 61 years; by 1980 it had dropped to 25 years. Today it's just 18.

Those numbers suggest that as companies grow, they need a better way to manage metamorphosis – a reliable process that will enable them to shift gears without falling apart. We believe dual transformation will allow companies not just to survive the next disruptive challenge but to harness disruptions again and again to build enterprises that can thrive over the long haul. ◆

Clark Gilbert *is the CEO of Deseret News Publishing and Deseret Digital Media.* **Matthew Eyring** *is the managing partner of the strategy and innovation consulting firm Innosight.* **Richard N. Foster** *is a senior faculty fellow at the Yale School of Management.* *This article was published in* HBR, *December 2012.* *Copyright©2013 Harvard Business School Publishing Corporation. All rights reserved.*

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BATTLING THE

The past couple of years have been difficult for Indian companies. High interest rates, a volatile rupee and a slowing economy have made them cautious. In such times, the role of the chief financial officer has become even more crucial. He has to manage debt, cut costs, ensure adequate working capital, and remain profitable. The fourth edition of the *Business Today*-YES Bank Best CFO awards recognised some of the financial wizards who successfully managed these difficult tasks in an uncertain environment.

Months of anxiety around these prestigious awards culminated in an exciting evening on June 3, when the winners' names were declared at a glittering function at the ITC Maurya hotel in New Delhi. Anand Sharma, Union Minister of Commerce & Industry and Minister of Textiles, gave away the awards. Addressing the gathering, Sharma recalled the global financial crisis of 2008 and said emerging economies such as India and China had been better placed at the time to implement stimulus measures. "We came out of that crisis. We thought we had come out. It was a mistake because no even recovery has taken place in the world and it will take a while for the economy to go back to the pre-crisis level, both from the growth perspective and the flow of capital," he said.

Sharma listed the government's priorities – creating jobs, returning to high growth, controlling the current account and trade deficits, and boosting manufacturing. He noted that agriculture sustained 58 per cent of India's population

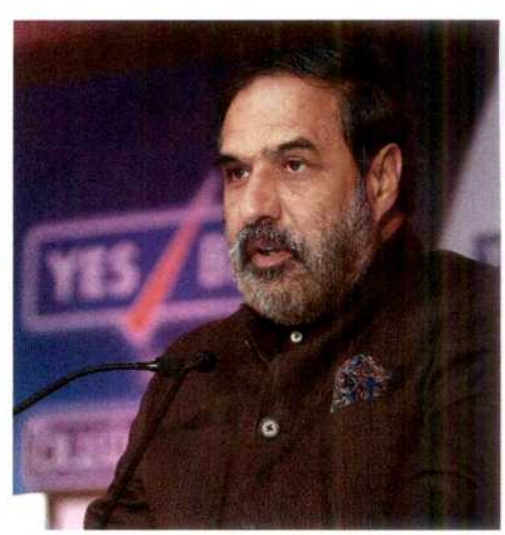
Winners all: (From left to right) CFOs Ambarish Raghuvanshi (Info Edge), Naresh Bhansali (Emami), A.K. Mukherjee (Exide), P.K. Bajpai (BHEL), Business Today Editor Chaitanya Kalbag, Ram Singh (Engineers India), India Today Group Chairman and Editor-in-Chief Aroon Purie, Sushil Agarwal (Aditya Birla Nuvo), Commerce & Industry Minister Anand Sharma, Kailash Birla (UltraTech), Yogesh Dhingra (Blue Dart), Amit Kumar, Group President and Country Head for Corporate and Institutional Banking at YES Bank, P. Alli Rani (Container Corporation of India), L. Kishore Babu (Divi's Lab), Kamal Kishore Baheti (McLeod Russel), Rajiv Tandon (ITC), R. Sridhar (Hindustan Unilever), P. Ganesh (Godrej Consumer)

SLUMP

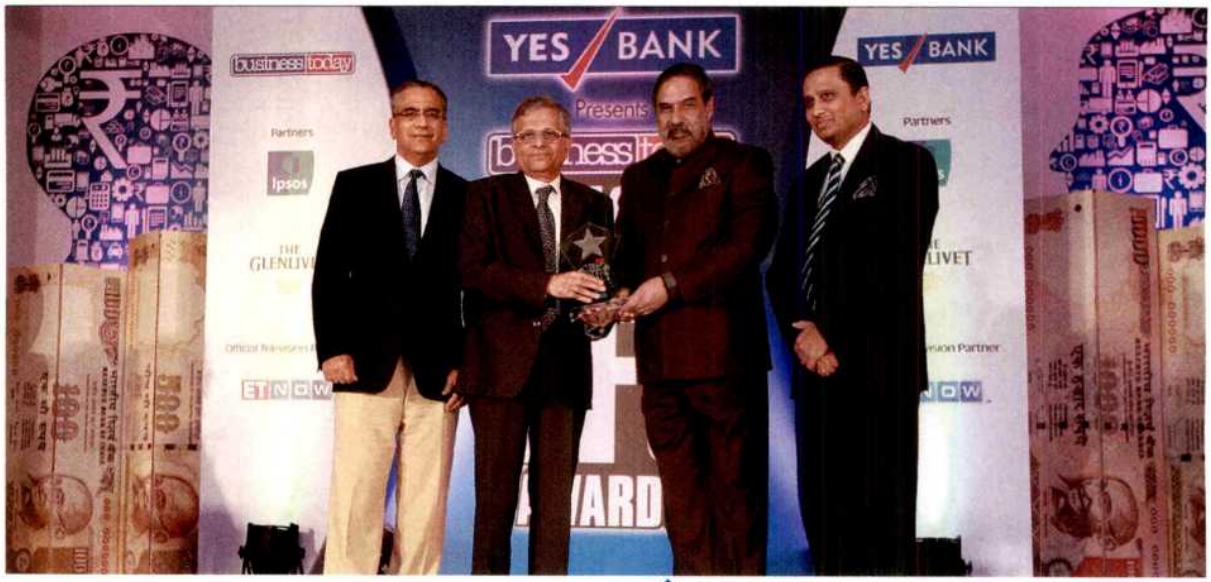
The fourth edition of the *Business Today*-YES Bank Best CFO awards recognised India's best financial brains, who kept their companies' finances thriving despite the uncertainties of the past year. By DEARTON THOMAS HECTOR

and the country also needed to expand manufacturing. "Services are not going to get us the jobs. Beyond a point, services can only grow on the strength of manufacturing and that's where the jobs will come." He said if 18 industrial cities came up in India, the country could become the manufacturing hub of the world.

India Today Group Chairman and Editor-in-Chief Aroon Purie, delivering the keynote address, said it was the worst of times and the best of times to be a CFO. "It's the worst because falling GDP growth, rising inflation, rising capital costs, rising raw material and human resources costs, and the weakening of the rupee have put a real challenge for CFOs to keep their companies' balance sheets healthy," he said. "At the same time, it is the best time for CFOs because this trough



Sharing insights: Anand Sharma, Minister of Commerce & Industry, and Textiles, addresses the gathering



CFO No. 1: ITC's Rajiv Tandon accepting the Best CFO award from Anand Sharma, flanked by Aroon Purie (extreme left) and Amit Kumar of YES Bank (extreme right)

provides the opportunity to flush out inefficiencies and plan and invest for the future."

Business Today Editor Chaitanya Kalbag briefed the audience about the process followed in choosing the best CFOs. He read out a reader's comment on the magazine's website about last year's CFO awards. "Nine among 10 of us take the winners of such awards as predefined. It's the system we live in, that we have lost faith in. But thanks to the details in this particular special award, we have respect for *Business Today* awards," goes the comment. This comment, said Kalbag, showed "how impartial and rigorous these awards are".

The CFOs were awarded in 16 categories this year compared with 14 last year. YES Bank was the knowledge partner and executed the methodology. Speaking on the occasion, Amit Kumar, Group President and Country Head, Corporate and Institutional Banking, YES Bank, said: "In the complex Indian economic scenario, a CFO's role has transitioned from the traditional functions of controlling the finance and accounts of the organisation to being core to the execution of corporate strategy."

The prize for the best overall CFO went to ITC's Rajiv Tandon. He also won in the category of 'Sustained Wealth Creation' for large companies. Tandon said growing an organisation required team effort. "Creating shareholder value is a result of ITC's superior strategies. We have a relentless focus on value creation and financial discipline. We don't just look at the market share of our products. ITC believes in market standing."

P. Alli Rani of Container Corporation of India received the Best Woman CFO award. Rani said when she asked the organisers why they have a separate category for women CFOs, she was told the aim was to motivate more women to join the world of finance. "I should tell the ladies out there that we are getting well paid for something we have been doing all our lives at home – managing funds," she said to thundering applause. "I look forward to the day when *Business Today* will institute a Best Male CFO award."

A.K. Mukherjee, Director (Finance) and CFO of Exide Industries and a winner of Best Transformation Agent (large companies) award, said his company had grown at a "stupendous" pace over the past 10 years. He said the company had transformed itself from an automobile battery maker into a power storage device manufacturer focusing on several sectors.

The survey partner for the event was Ipsos India and event partner was Glenlivet. ◆

Woman Power: Container Corporation of India's P. Alli Rani, the Best Woman CFO, shares her views with the audience

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CHEWING ON IDEAS

A group of CEOs broke their fasts with *Business Today* in New Delhi in the first of a series of unusual dialogues. By DEARTON THOMAS HECTOR

June 7 was a breezy, slightly humid, Friday morning in Delhi, a break from the scorching summer heat. It was time for the first edition of *BT*'s Power Breakfast series, an exclusive interaction with industry leaders in association with The Oberoi Group. And inside The Oberoi, New Delhi, preparations were on in full swing from early morning to welcome the guests.

As the Chief Executive Officers (CEOs) of the invited companies started to arrive around 8 am, they were welcomed by the *Business Today* team led by Editor Chaitanya Kalbag. Over plates of brown bread toast, scrambled eggs and glasses of watermelon juice and much else, they chatted informally before the formal discussions began.

At 9 am, it was time to get down to business. Kalbag formally welcomed the group of CEOs to the discussion on : 'The *Lal Batti* Culture- Is Politics Smothering Business?'

The CEOs present that morning were Amit Jain, Managing Director, Akzo Nobel India; Amitabh Kant, CEO and MD, Delhi-Mumbai Industrial Corridor Development Corporation; Banmali Agrawala, President & CEO, GE South Asia; Kapil Chopra, President, The Oberoi Group; Rahul Bhasin, Managing Partner at Baring Private Equity Partners; Rajat K. Jain, Managing Director, Xerox India; and Jay Rathore, Vice President and General Manager, The Oberoi, New Delhi.

All ears: Bhasin, Amit Jain and Agrawala at the brainstorming session

Chopra forcefully made the point that India was a tough country to do business in. "When you open a hotel, you need over 100 licences. We are opening one in Dubai and one in Hyderabad and the experiences at the two are a total contrast," he said.

Kant felt that the manufacturing sector needed to grow at 13 to 14 per cent annually. "That's where the jobs will come in a big way." He said that a lot of projects under the public-private partnership (PPP) scheme had run out of steam. "Government must unleash about

Power gathering: (From left to right) Kapil Chopra, The Oberoi Group; Banmali Agrawala, GE South Asia; Amit Jain, Akzo Nobel India; Chaitanya Kalbag, Business Today; Rajat K. Jain, Xerox India; Rahul Bhasin, Baring Private Equity Partners; Amitabh Kant, Delhi-Mumbai Industrial Corridor Development Corporation; and Jay Rathore, The Oberoi, New Delhi

Huddle: The CEOs in a discussion

200 IAS officers on the ground to structure projects properly, which is the most complex part in India," he said, sounding agitated.

"The bureaucracy was set up by the British to manage a colony, to manage the natives who were not capable of looking after themselves. Unfortunately, the mindset in the bureaucracy has remained that they need to run the country," said Bhasin. He argued that bureaucrats should be "facilitators".

Bhasin also pointed out that India had a lot of rules that were not implemented. "How do you invest in an industry where those who break the law prosper and those who follow the rules don't," he asked.

Rajat Jain noted that the fundamental problem India faced was that of "income disparity". He also argued that there was public apathy towards politics and held the bureaucracy responsible for the current sorry state of affairs. "How many of us want to join politics or the civil services," he asked.

But it was not an all pervasive sense of gloom and doom at the meet. Some participants were still upbeat about the India growth story.

GE's Agrawala, for instance, had a slightly different take from the majority. "There are a few major hurdles we are facing such as scarcity of jobs and the short time frame in which the electorate now expects change to happen," he said. "These problems you can find around the world. Let's not bash ourselves." Amit Jain echoed Agrawala's point of view. "Bureaucracy bashing is easy. But our bureaucracy is pretty decent. Bureaucrats are remarkably efficient, when they choose to be." He added that it was the bureaucracy which often came to the rescue of people, from the *lal batti* (politicians).

The Power Breakfast series will continue and will soon also be held in the cities of Hyderabad, Mumbai and Bangalore. ◆

LAST BUT NOT LEAST

RIGHT CLICK 111 CAREERS 112 PEOPLEBUSINESS 120

A Taste of Power

Amateurs writing food blogs have grown both popular and influential, with restaurants deferring unctuously to them. By **DEARTON THOMAS HECTOR** and **GOUTAM DAS**

The Sicilian aubergine bake looked tempting enough – round slices of red vegetable with melted cheese on top. But blogger Nandita Iyer took one look and stopped short of digging her fork into it.

"It is under-cooked. You can eat many vegetables raw. But aubergine?" she said loud enough for the manager of the restaurant to hear.

The location: a five-star Bangalore hotel, which was offering an expansive Friday buffet lunch. The manager jumped up from his seat and rushed to her table, promising to find out what went wrong. He disappeared and reappeared in minutes. "Yes, you are correct," he said. "The dish was supposed to be grilled and then baked – it was only baked."

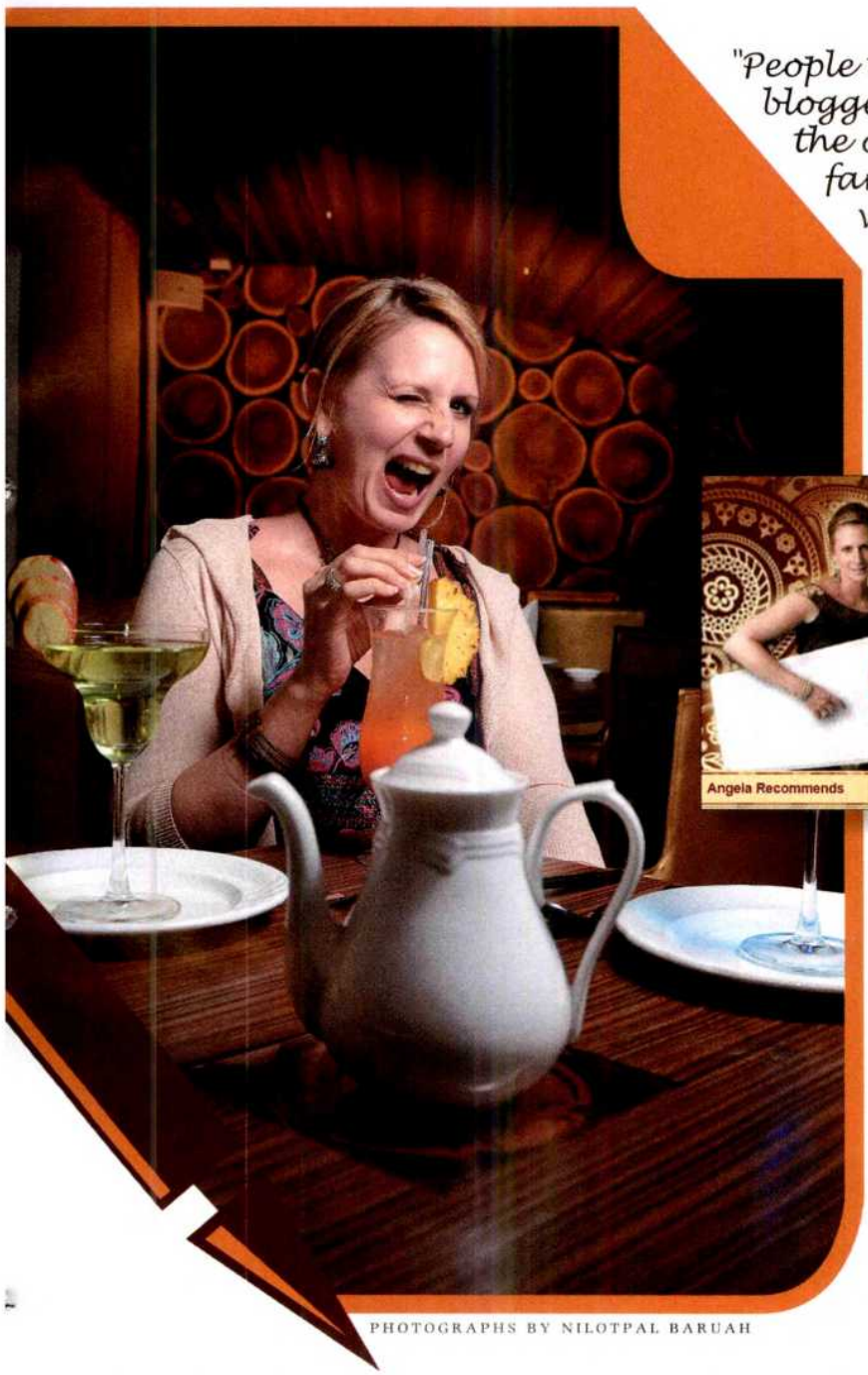
Apologies followed. Time and again thereafter, the manager and other employees came back to her table to ask how she found each item she picked.

This is only one instance of the influence Iyer – a doctor and author of the immensely popular food blog *Saffron Trail* – wields across the city's restaurants. Owners and managers listen to her while fans keep coming back to her seven-year-old blog for advice on where to eat out, or simply to discover the traditional Tamil Brahmin recipes she industriously collects from grandmothers and records. Iyer gets 10 invites from restaurants every week, but rejects most of them.

Once upon a time, only food critics of leading city publications drew this kind of deference from the restaurant industry. Internet penetration in the country may still be abysmally low – only 138 million of India's 1.2 billion people are online – but the ones who do surf are also those who comprise the bulk of fine dining restaurants' clientele. They are the ones with the discretionary spending power. With restaurants gradually realising this, wooing food bloggers has suddenly become an important part of their public relations exercise.

"People trust reviews from bloggers the way they

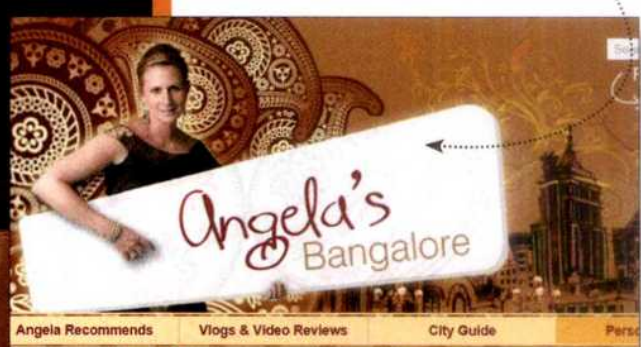
2,000
Average daily visitors to the better-known food blogs



PHOTOGRAPHS BY NILOTPAL BARUAH

"People trust reviews from bloggers the way they trust the opinions of friends and family. So we get treated very nicely at restaurants and can get anything we want."

Angela Carson
Angela's Bangalore



trust the opinions of friends and family," says Angela Carson, a Bangalore-based American executive with a social media marketing company, who, in her spare time, blogs about the restaurants she visits (and much else). "So we get treated very nicely at restaurants and can get anything we want."

She goes one step further than merely writing reviews. She takes pictures of restaurants she goes to – of the décor, the dishes and even the rest rooms – and posts them alongside her review at *Angela's Bangalore*. "I try to give a visual experience through my blog," she says.

Most of the better known food blogs attract over 2,000 unique visitors a day. And the responses each fresh blog post gets run into hundreds. Some restaurant owners readily admit they have benefited from favourable reviews on blogs. "We have seen an average 20 per cent increase in footfalls after every positive blog review," says Puneet Dhawan, General Manager, Novotel Bengaluru Techpark, a premium Bangalore hotel. It was blogger feedback which prompted the hotel to modify the spread at its Sunday brunch. It added mini burgers, which children preferred, and displayed its desserts more prominently.

Some restaurants have even begun to carefully analyse food blogs and data related to their effectiveness to use them to advantage. "Blogs are an excellent medium to garner user feedback, which helps in continuously enhancing and altering the brands' offerings," says B. Hariharan, Vice President, Sales and Marketing, ITC Hotels. The chain often conducts food bloggers' meets at various ITC properties.

Owners and managers listen to Nandita Iyer while fans keep coming back to her seven-year-old blog for advice on where to eat out, or simply to discover traditional Tamil recipes

Recently, one of the most happening fine dining and live music clubs, blueFROG, with outlets in both Mumbai and Delhi, promoted its Happy Hours menu, not by media advertisements, but through bloggers. "We wanted to remove the perception that blueFROG is an expensive place," says Simran Mulchandani, founding member of the club. "Bloggers worked well for us in getting the word out on our Happy Hours menu."

However, food blogs have still some way to go to achieve their full potential. With their glut of loyal readers, for instance, monetising them should have been easy. Curiously that has not happened yet – few of these blogs carry ads. "My blog gets Google ads and one could do advertorials, but I'm not looking at them right now," says Delhi-based Anoothi Vishal, who runs the blog *India –Food and Travel Guide*. Iyer's *Saffron Trail* too has no ads, though her blog has enabled her to get writing assignments on food for other publications. So too some bloggers themselves insist their influence is somewhat overrated. "Ultimately, it is up to the consumer, who takes every opinion with a pinch of salt," says Delhi-based Sid Khullar, author of the blog *Chef at Large*. "We just air our opinions."

There is also a flip side. Since no evidence of expertise on a subject has to be produced before a person is allowed to start blogging about it, people ill qualified to comment have begun writing blogs as well. And that applies to food blogs too – there are indeed bloggers driven primarily by the allure of free food at fancy restaurants. "Some bloggers threaten us they'll write bad reviews if their demands are not met," says Ashish Kapur, Managing Director of the Chinese restaurant chain, Yo! China. Mahendra S., Manager at The Tao Terraces, a swank Bangalore restaurant, agrees. "Now, every kid wants to write a food blog," he says. "These people eat mostly pizzas, burgers and other junk food, and then suddenly want to write about fine dining."

A la Spiderman, bloggers too need to realise, power has to be used responsibly.

ADDITIONAL INPUTS BY KAAVYA CHANDRASEKARAN

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Rise in the no. of footfalls at restaurants following a positive blog review

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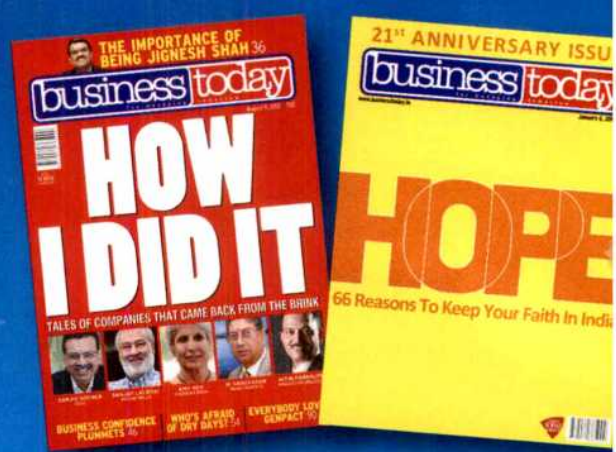

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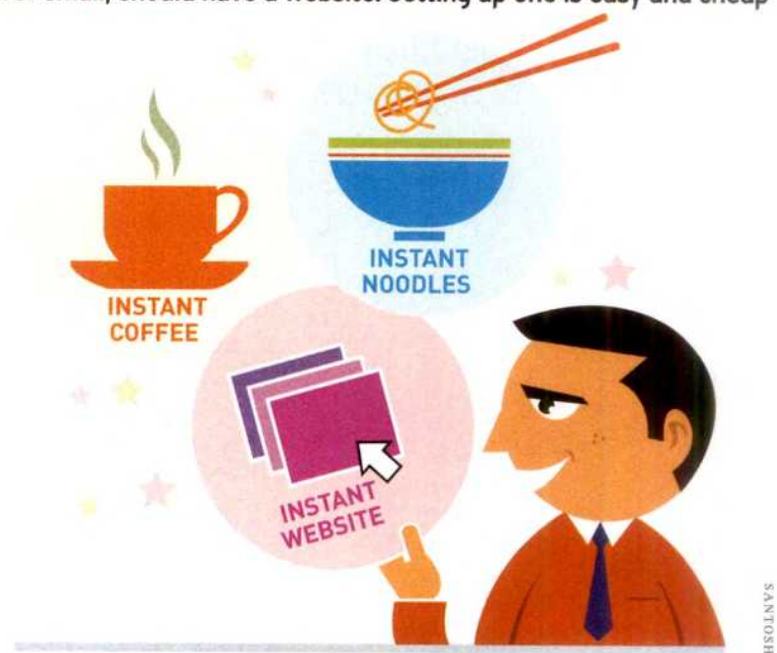
NANDAGOPAL RAJAN

Make Your Presence Felt

Every business, however small, should have a website. Setting up one is easy and cheap



SANTOSH

When Bangalore-based Monika Manchanda first decided to profit from her passion by starting a baking business, she thought word-of-mouth publicity would be enough to bring in customers. It was not. She then turned to the Internet, creating a website for it using Google's "India Get Your Business Online" platform. Her business increased manifold.

Though it has become fairly easy, the thought of running a website still spooks many entrepreneurs. Many are put off by the high prices – around ₹4 lakh – quoted by website creators to set up and maintain a website. And neither are they technologically savvy enough to do without the professional creators. Only half a million of over 40 million small businesses in India have an online presence.

In fact, building a basic business website is not costly or skill intensive any more. Google sets up such sites – no doubt far less sophisticated or customised than the kind the professionals provide – for free. Web hosting company GoDaddy does the same for ₹580 a year. Both claim they will have your site up and running in less than 30 minutes.

Do all businesses need a website? Yes, if they want to be more visible. Take Jyotin Shah, a Mumbai-based entrepreneur who stocks accessories for gadgets from all over the world. Shah's brick-and-mortar store was not very successful, but as soon as he launched a simple, unadorned website and regularly sent mailers to his clients, he got a steady flow of orders.

Isn't social media presence good enough? It is always better to have both. Praveen Bhadada of Zinnov Management Consulting says a lot of innovation is happening at the "crossroads of social, website and emails". This is where new-age solutions offered by companies like NowFloats come in. This Hyderabad-based firm is just four SMSes away. Send it four SMSs giving the company details, and at the end of the process, it will have your website ready with the web address: "XXX (yourcompanyname).nowfloats.com".

What do basic website creators provide? Four things, says GoDaddy India Vice-President and Managing Director Rajiv Sodhi. "You get a website, a domain name, an email linked to your website and access to Google AdWords." GoDaddy has a strong customer support centre as well, plus a battery of partners who handhold the new business's online activities.

So too Google's "India Get Your Business Online" programme gives you a domain name and hosts a simple template-based five-page website for you, free for the first year. The package includes a free email id and indexing on Google Search. An unlimited package costs ₹600 per year. In the two years since Google started the programme, it has got 200,000 businesses online in 8,000 Indian locations. Google India spokesperson Gaurav Bhaskar says there is a lot more acceptance of the need for a website now.

The biggest barrier in India remains the customer. For years, many traditional companies saw no point in an online presence, because they gained nothing from it. That is changing with the increasing relevance of local search powered by mobile phones. If you have a website, at least your name will show up when someone is searching for your kind of business in your locality.

One sector which has realised the power of the web is the local restaurant business. Small dhabas to hole-in-the-wall chaat shops now enlist on JustDial and hope for a Zomato review soon as they set up shop. Others can take a lesson from them. ◆

Making a Comeback

How to improve your chances of getting hired after a career break. By CHANDRALEKHA MUKERJI

SANTOSH

Niveditha Naik, a software engineer, quit her job after working for three years at Infosys. She wasn't unhappy at work, but family was a priority.

"My husband was in the merchant navy and used to be away for months. Even when he was home, we hardly got time together, as commuting to and from work took me four hours every day," says Naik.

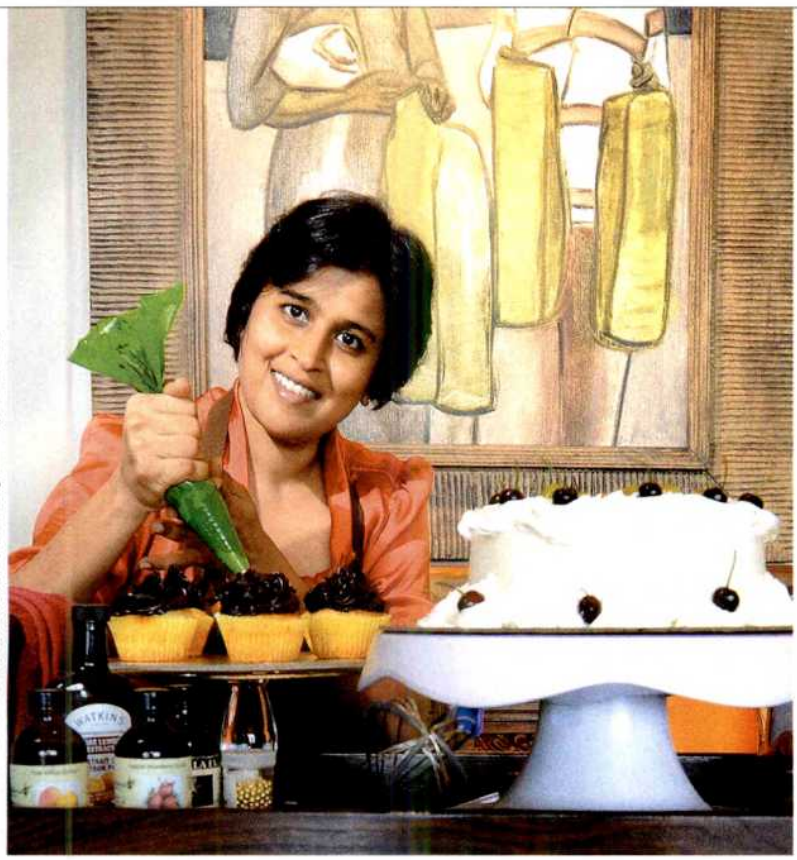
She quit in February 2008. Her daughter was born the following year, and her son in 2011. When her son turned one, she was ready to go back to work.

However, finding a job after the four-year break was difficult. "As soon as recruiters saw I had taken a long break they would discount my application," says Naik. Her MBA degree, through a distance learning programme, didn't count. "A break is considered a blot in the CV and one has to be persevering and ready to make compromises to get back into the workforce," says Rituparna Chakraborty, Co-founder and Senior Vice President at HR services firm, TeamLease Services.

Naik did get job offers but none related to her core skills. Finally, she had to take up a sales job in the financial sector. "From day one, I felt overqualified. It was no comparison with the earlier work I was doing," says Naik. She has quit again and will now wait for the right job. She is not sure how long it will take. "I had a

"As soon as recruiters realised I had taken a long break they would simply discount my application"

NIVEDITHA NAIK
software engineer



SHEKHAR GHOSH/www.indiatodayimages.com

GAURI BAFNA, 41

was Consulting Head, Human Resources at PwC, Jakarta (Indonesia), when she quit to take care of her children. After 10 years, she did a short course in bakery and confectionery and turned her long-time hobby, baking, into a full-time business.

"I wanted to do something that would allow me to be with the kids and make me happy. Pursuing a hobby seemed like a good idea"

strong start and had I not taken the break, companies would have wanted to hire me," she says.

Whatever the reason – family, health or education – for a career break, a person who takes one makes recruiters apprehensive even if they are convinced of her ability. So those trying to get back must be prepared to explain the reasons for the break. They must be ready to face questions such as: What if the problem resurfaces? Why does she want to join work again? What did she do during the break?"

"Most organisations are not equipped to handle job breaks. There is little in the form of coaching, mentorship and assessment," says Sairee Chahal, co-founder, fleximoms.com, which connects women to employers who offer flexitime options and runs a 'back to work' programme, Second Chance, for women who have taken career breaks.

Why only women? "Other than to pursue higher education or for health reasons, men generally do not take long breaks," says Chahal. Women need maternity breaks, and it is usually mothers who put careers on hold to take care of the children.

Other reasons are marriage and relocation. "Though some men also attend our programme or are looking for flexi-career options, their proportion is small," adds Chahal.

The ratio may be skewed but the difficulties of getting back are the same for both genders. Rejoining means adjusting to a newer and more evolved marketplace of skills and stepping out of one's comfort zone. Here are some ways to retain your employability during the break so that the comeback can be as smooth as possible.

"Combine your previous experience with developments during the break to assess where you can fit in best"

RITUPARNA CHAKRABORTY
Co-Founder and Senior Vice President, TeamLease Services

Analyse your appetite: Before the HR manager puts this question to you, ask yourself: why do I want to work again? Unless you are doing it for financial reasons, the first step should be to analyse your decision to return to work. Think about how much you are capable of handling, especially if you had quit due to personal responsibilities.

"Had I the option of working from home or flexible timings, I wouldn't have resigned," says Amanpreet Bindra, who left her job at Reliance Communications as she felt it was coming in the way of her responsibilities as a mother. She now works for an NGO from home. Also,

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assess your current interests. It is not necessary to return to the old role. You can use this transition moment to make a career shift.

Gauri Bafna was Consulting Head, Human Resources, PwC, Jakarta, when she left the job to take care of her family. After 10 years, she wanted to work again, but not in the corporate world. She did a course in bakery and confectionery and turned a hobby into a business. "This is not for money. I'm pursuing a passion," she says. She runs Swetcentric from home and bakes on order. She plans to open an outlet soon.

Bafna had to build from scratch. But it's not the only way. There are a range of options. For example, running a franchise or becoming part of a partner network or re-seller programme can be easier than going solo. You can also work with start-ups that value your experience or be a consultant in your area of expertise. "Combine your experience with developments during the break to assess where you can fit in best," says Chakraborty of TeamLease. For instance, Bindra used her experience in the telecom industry with Reliance to work for an NGO, where flexible options is easier to find.

Stay up to date: Employers want people who are abreast of the latest trends related to their work. Therefore, stay updated during the break. The traditional ways to brush up skills and knowledge – books, magazines and courses – help. However, staying in the field through freelance work is best. "Rather than do a course, if possible, take up part-time assignments," says Sunil Goel, MD, GlobalHunt India. One can also help a charity, work for NGOs, enhance digital skills or help start-ups. This will give the impression that you have used the break well.

Network: Keep in touch with old colleagues and employers. Networking will help you search for an appropriate opening or get good references that can increase your chances of getting selected. People from the industry can be a good source of information as well about changes at the workplace. "Spend time talking to and getting mentored by professionals. This will not only help you keep abreast of what is going on in your field but also create goodwill," says Chakraborty.

SOUNAVA RAY SARKAR

AMANPREET BINDRA quit her job at the escalation desk of Reliance Communications as she felt a full-time job was coming in the way of her responsibilities as a mother. After a five-year gap, Amanpreet now has an assignment-based job that allows her to work from home.

"The new company was small compared with my previous organisation, but the business was expanding and growth prospects were good"

Redraft the resume: A gap does not show well. But trying to cover it up makes it worse. So, explain the reasons clearly, either in the covering letter or in a line in the resume. "Be clear. Most important, convey your sincerity and eagerness to take on the new assignment," says Chakraborty.

Recruiters often check your digital footprint. "Align your profile on social and professional networks with your resume," says E. Balaji, MD and CEO, Randstad India. If you do not have an account on these networks, create one. .

Be flexible: You are at a disadvantage at this stage and so, being flexible will help. Salary, for one, should not be a big deciding factor. "Companies always look at the last role and the compensation. So, do not compare your pay cheque or job profile with those who started with you and have grown while you were on a sabbatical," says Goel of GlobalHunt India. It doesn't mean you should allow yourself to be exploited. The compensation should be in keeping with your experience, and industry standards.

It is often easier to make a comeback in emerging high-growth sectors or smaller firms. Emphasis should be on job profile and prospects, not on the size of the organisation. "The new company I joined was small compared with my previous organisation, but the business was expanding and growth prospects were good," says Bindra.

Also, it is easier to get into roles that focus on individual skills and competence and not so much on the ability to manage teams and organisational structures. "One has a better chance of returning in teaching, programming and recruiting than in a managerial or marketing role," says Chakraborty of TeamLease. "One's ability to persevere, confidence and readiness to make adjustments to get back to work matter." ◆

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Location: Bangalore
Job ID: 13368511
Description: DATA SERVICES experience. BODS in a SAP environment, BODS in a DATA migration project.

Akshay Software Technologies Ltd
Drupal Developers
Location: Mumbai
Job ID: 13277096
Description: Looking for Drupal developers with 3+ yrs experience for Mumbai - Andheri East location.

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Thinking Minds Inc
Business Development Manager
Location: Nasik
Job ID: 11533443
Description: Ability to handle multiple tasks simultaneously in an organized fashion.

2COMS Consulting Private Limited
Sales Manager
Location: Hyderabad
Job ID: 13470478
Decription: Should be leading a team minimum 5-6 front line sales people.

ABC Consultants Private Limited
Sales Manager
Location: Chennai
Job ID: 13469630
Description: 8 -10+ years of sales experience in India market with a demonstrable track record of new business sales achievement in a B to B solutions sales organization.

CareerNet Technologies Private Limit
Sales Exec/ Sales Representative
Location: Bangalore, Chennai
Job ID: 13362007
Description: To maximize the sales memberships to prospective Sterli members in different markets by mak powerful and successful sales presentatio in different settings.

Gati Kintetsu Express Private Limited
Business Development Manager
Location: Bangalore
Job ID: 13404470
Description: Seeking New Business Development Manager for Bangalore with strong network and customer relations skills.

Teradata
Regional Sales Manager
Location: Mumbai
Job ID: 12890969
Description: Looking for a senior Sa professional to generate revenue by clos strategic account sales.

Roland and Associates
Business Development Manager
Location: Kannur, Kottayam
Job ID: 13467469
Description: Overall responsibility for activities at a store spanning customer service, store-level sales and revenue targets across all products (voice – postpaid/ prepaid, data etc.).

Omnitech Infosolutions Limited
Key Account Manager
Location: Bangalore, Chennai
Job ID: 13363498
Description: 4-7 years, Key Accc Manager , Any Technology/ S Certifications will be added advantage.

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Oracle India Private Limited
Payroll / Compensation - Manager / Head
Location: Bangalore
Job ID: 13465064
Description: 6 years of experience with Indian Payroll in any automated payroll package.

Deloitte Consulting India Private Limited
Senior Consultant- ERS, FARS- AVA
Location: Hyderabad
Job ID: 13467405
Decription: Specialized accounting knowledge (industry specific - Financial Services, Energy & Resources, Technology/Media/Telecommunication, Healthcare/Life Sciences.

Cisco Systems India Private Limited
Finance Generic
Location: Bangalore
Job ID: 13156957
Description: Ability to participate/and leverage cross-functional and regional teams.

ACS, Inc.
Accounting Manager
Location: Bangalore
Job ID: 13151497
Description: Resolves and reviews issues affecting Company compliance, legal requirements and customer/company objectives.

Syntel Limited
Finance Associate
Location: Mumbai
Job ID: 13336861
Description: Minimum 1 yr of experience after Graduation in core Finance & Accounts.

Fidelity Business Services
Associate Specialist /Specialist FPCMS
Location: Chennai
Job ID: 13397243
Description: Must have advanced knowledge of Mutual Funds including awareness about the various products available and floated in the Capital Market.

WNS Global Services Pvt. Ltd.
General Ledger Process(GL)
Location: Mumbai
Job ID: 13289329
Description: Candidate should have good knowledge of Bank Reconciliation.

NCR Corporation India Pvt. Ltd.
Internal Auditor
Location: Mumbai
Job ID: 13324819
Description: Assist in evaluating internal controls, interpreting field audit results, and determining root cause(s) for issues.

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Vaulting Success

The biggest vault in the country, spread over 40,000 sq ft, bigger even than that of the Reserve Bank of India, became operational recently. It is owned by SIS Prosegur, the joint venture set up last year by Security and Intelligence Services (SIS) with the Spanish multinational Prosegur – the first strategic foreign investment in the value-added logistics and cash management segment in India. "Most of our customers are pleasantly surprised when they visit this facility," says **RITURAJ SINHA**, Managing Director of the company. "They do not expect a cash processing and vaulting facility of this scale outside the banking system." The facility has state-of-the-art security systems, including over 350 CCTV cameras, access control automation, motion sensors, pressure sensors, and firewalls and can process ₹250 crore worth of currency notes in a day. SIS Prosegur operates 18 cash vaults and processing centres across India with a service network across nearly 300 towns and cities.

VIVAN MEHRA

VIVAN MEHRA/www.indiatodayimages.com

SHEKHAR GHOSH/www.indiatodayimages.com

Gelling Well

The look of their finger and toe nails matters to a whole lot of women. No one knows this better than **ELMIEN SCHOLTZ** whose company, Bio Sculpture Gel, begun in 1988, now has a presence in over 45 countries. "We were the first to make coloured gel and also the first to make gel that can be removed without damaging the natural nail," she says. Now she is entering India too, having found the "right partner" in Pammi Lall, who will be Director, Bio Sculpture India. The Indian subsidiary, apart from retailing the gel will conduct courses to train nail technicians. The first training centre has opened in Delhi. How often does Scholtz get her own nails done? "Every three weeks," she says.

DEARTON THOMAS HECTOR

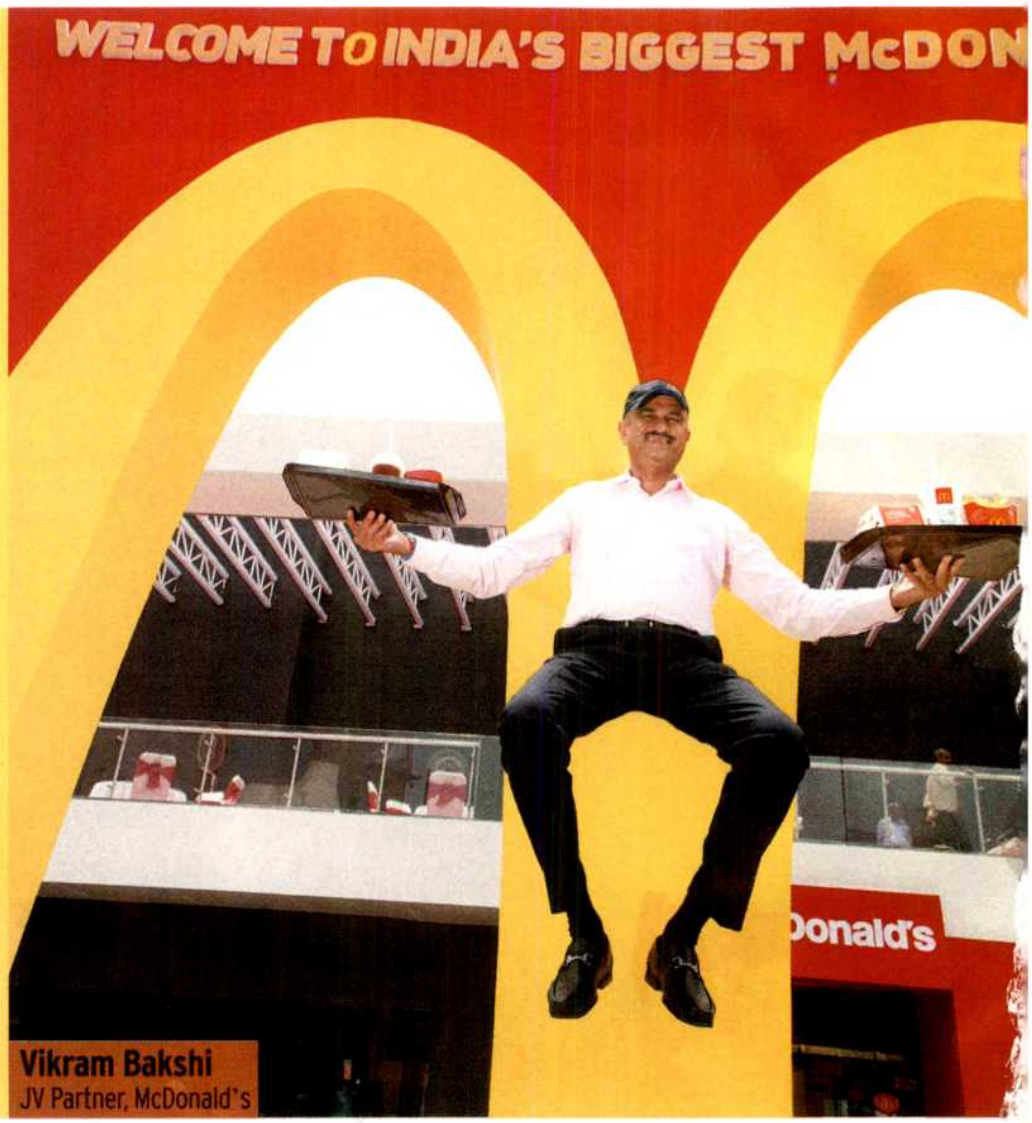
Elmien Scholtz,
Founder-Director, Bio Sculpture Gel

VIVAN MEHRA/www.indiatodayimages.com

Biggest Mac

McDonald's has opened its biggest outlet yet in India – spanning a vast 8,000 sq ft – at a mall in Noida, on Delhi's outskirts. And no one is more pleased with it than **VIKRAM BAKSHI**, Joint Venture partner and Managing Director, McDonald's India (North and East). He readily acknowledges that the current depressed economic climate worked to McDonald's advantage in Noida – both real estate and employees came cheaper than they used to. "A good location is very important for opening such large restaurants," he says. McDonald's future plans include expanding in small towns and introducing grilled and steamed food on its menu to promote healthy living.

VIVAN MEHRA



Vikram Bakshi
JV Partner, McDonald's

Golden Krishna
Senior Designer,
Samsung Design America

Golden Idea

It was a quote which went viral on the Internet. "The best interface is no interface," said **GOLDEN KRISHNA**, Senior Designer at Samsung Design America at a conference in Austin, Texas. What did he mean? He wants people to be able to do the things they use computers for without employing the paraphernalia of screens and icons and keypads and apps – instead they should be able to navigate through voice, gestures and other 'natural' actions. "There is an obsession with drawing wireframes instead of thinking of how technology can really meet our needs," says Krishna, an alumnus of Pitzer College in Claremont, US and The California Institute of the Arts. Krishna's parents hail from Andhra Pradesh and Kerala, but he is US-born.

NANDAGOPAL RAJAN

Donald Trump Jr
Executive Vice President (Development and Acquisitions), Trump Organization

Coming Up Trumps

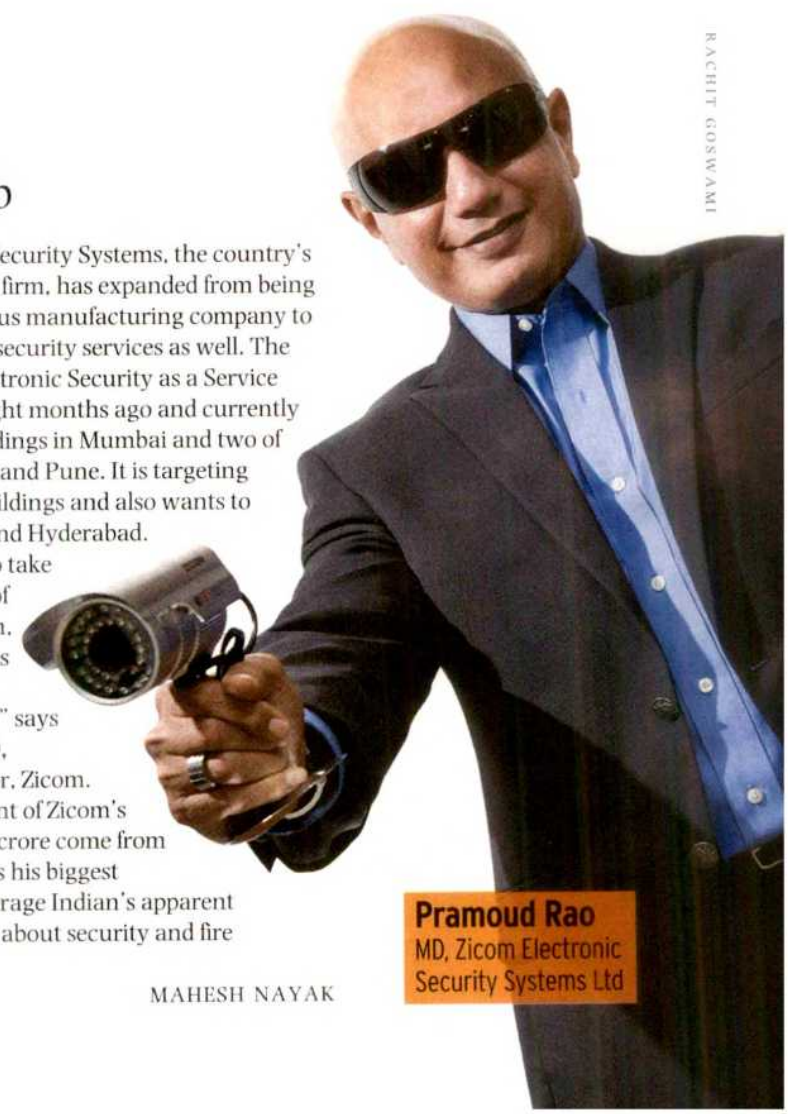
Less than a year ago, **DONALD TRUMP JR**, 35, son of US real estate tycoon Donald Trump, entered the Indian real estate market through a tie-up with developer Panchshil Realty to build a premium residential tower in Pune. He has plans to expand now to other regions such as Delhi-NCR, Mumbai, Bangalore, Chennai, Hyderabad and Goa. He says there is great demand for luxury housing in India. "We will continue to work towards identifying local developers who have a proven track record and share our vision of delivering best-in-class projects," he says. A Wharton School of Finance graduate, Trump Jr calls himself a true outdoors man who spends his free time fishing, hiking and golfing. He notes that numerous constraints hamper foreign investment in Indian real estate. "The absence of a single regulator to monitor business practices and lack of suitable exit options are problems," he adds.

MANU KAUSHIK

Secure Job

Zicom Electronic Security Systems, the country's first listed security firm, has expanded from being a security apparatus manufacturing company to one that provides security services as well. The project, called Electronic Security as a Service (eSAAS), began eight months ago and currently covers 1,300 buildings in Mumbai and two of its satellite towns, and Pune. It is targeting another 2,000 buildings and also wants to enter Bangalore and Hyderabad. "The idea is first to take over the security of buildings and then, when confidence is established, of individual homes," says **PRAMOUD RAO**, Managing Director, Zicom. Around 70 per cent of Zicom's revenues of ₹700 crore come from overseas. Rao says his biggest concern is the average Indian's apparent lack of awareness about security and fire protection.

MAHESH NAYAK



RACHIT GOSWAMI

Pramoud Rao
MD, Zicom Electronic Security Systems Ltd

VIVAN MEHRA/www.indiatodayimages.com

SANJAY MODI
Managing Director, Monster.com (India/Middle East/ Southeast Asia)

My first role model

My father, Mukund Modi. He gave me the freedom to choose

My first job

Was that of a table tennis coach to earn some pocket money. I used to coach a person who had a bad flatulence problem: made me realise that earning money is not easy!

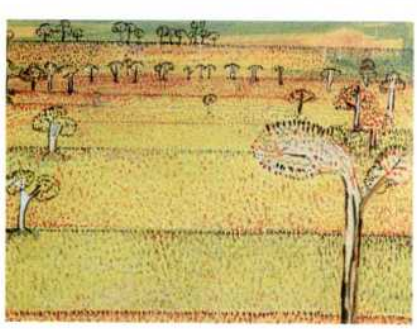
My first boss

K. P. Karunakaran at Ingersoll Rand. He taught me: "It is all about team work"

My first disappointment

I had to miss the opportunity to represent India at the Asian Games as part of the table tennis squad. The dates clashed with my preparation for school board exams

As told to Vivan Mehra



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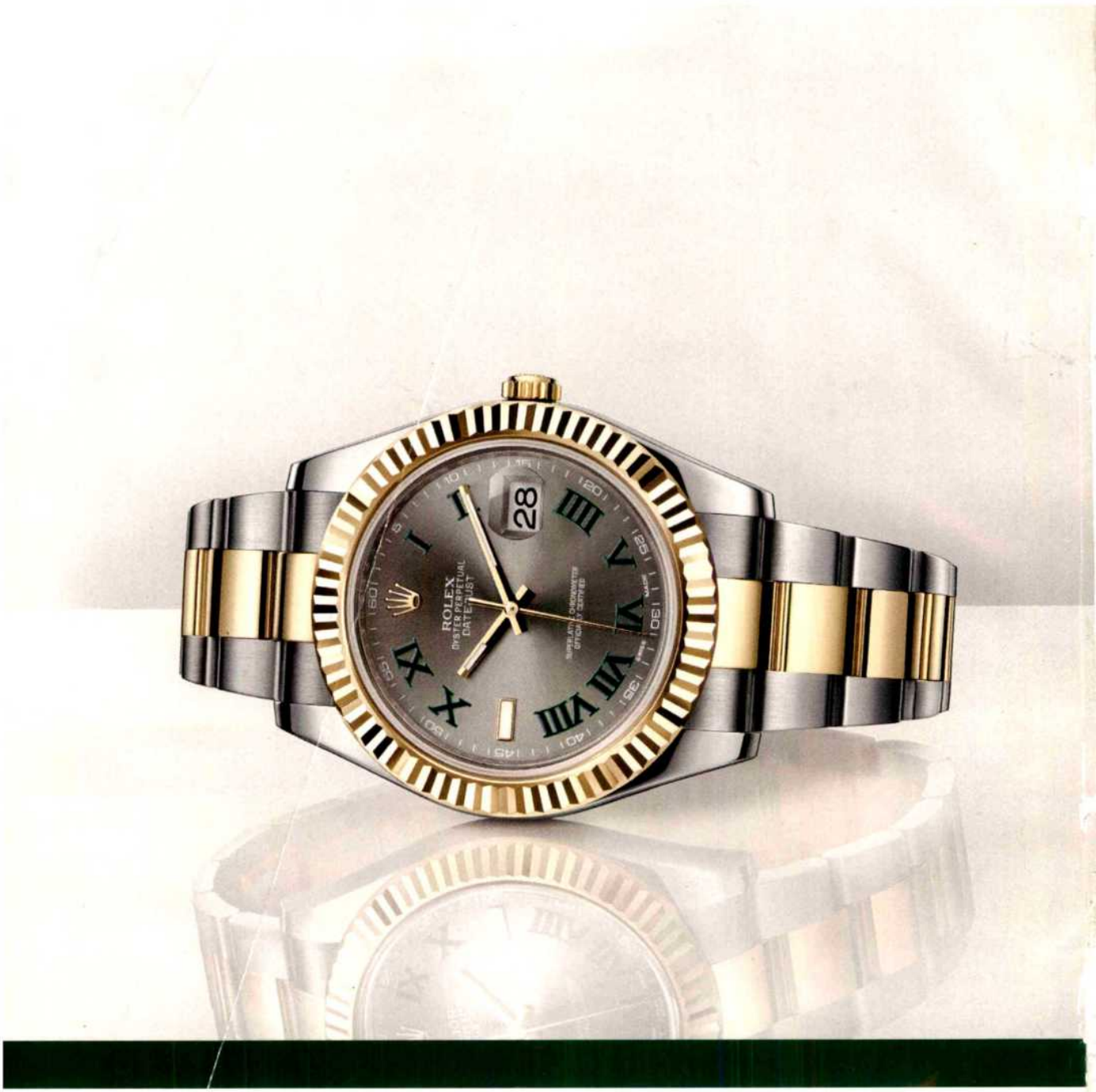

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